

CHAPTER 23

Comparative Economic Systems

Essential Question

To what extent should governments participate in the economy?

Section 1:

Capitalism

Section 2:

Socialism and Communism

Section 3:

The U.S. in a Global Economy

“Freedom in economic arrangements is itself a component of freedom broadly understood. . . .

Economic freedom is . . . an indispensable means toward the achievement of political freedom.

—Milton Friedman, 1962

Photo: Traders buy and sell at the Chicago Mercantile Exchange

GOVERNMENT ONLINE

On the Go

To study anywhere, anytime, download these online resources at PearsonSuccessNet.com

- Political Dictionary
- Audio Review
- Downloadable Interactivities

Lesson Goals

SECTION 1

Students will . . .

- examine the factors of production and the fundamental factors of free enterprise by completing concept webs.
- discuss and vote on what they feel is the proper level of government control in the economy.
- work in groups to create and present arguments advocating the free enterprise system.

SECTION 2

Students will . . .

- use a transparency to discuss the theories of Karl Marx.
- complete a chart that compares and contrasts economic systems.
- role play and write a dialog to compare and contrast life under capitalism and communism.
- write a journal entry evaluating economic systems.

SECTION 3

Students will . . .

- list ways in which government regulation of the economy affects their own lives.
- complete a concept web about the role of the Federal Government in the economy at home and abroad.
- summarize economic news reports to present to the class in a mock television program.

DIFFERENTIATED INSTRUCTION KEY

Look for these symbols to help you adjust steps in each lesson to meet your students' needs.

L1 Special Needs

L2 Basic

ELL English Language Learners

LPR Less Proficient Readers

L3 All Students

L4 Advanced Students

Pressed for Time

To cover the chapter quickly, have students complete the Reading Comprehension Worksheet for Section 1. Then ask them to complete the Bellringer Worksheet from Section 2. Review the answers to the worksheet as a class. Then have students complete the concept web activity from the Section 3 lesson on government involvement in the economy. Finally, have students make a pro-con chart on the issue of free trade.

GUIDING QUESTION

What is the role of the government in the U.S. economy?

Features of Capitalism		
Free Enterprise	Laissez-Faire Theory	Mixed Economy
<ul style="list-style-type: none">• Free market• Most likely to exist in democratic nations• Free choice by consumers, entrepreneurs, and workers• Private ownership of factors of production• Individual initiative to start, run, and dissolve businesses, and to innovate• Profit drives economy• Competition helps hold down prices and keeps quality high• Supply and demand determine price	<ul style="list-style-type: none">• Laissez-faire—government plays limited role in economy	<ul style="list-style-type: none">• Mixed economy—includes some government regulation


SKILLS DEVELOPMENT

ANALYZE CAUSE AND EFFECT

Before students do the Bellringer in this section, you may want to review information on analyzing cause and effect in the Skills Handbook, p. S16.

SECTION 1

Capitalism



Guiding Question
What is the role of government in the American economy? Create a chart similar to the one below to record information from the section on features of capitalism.

Features of Capitalism		
Free Enterprise	Laissez-Faire Theory	Mixed Economy
<ul style="list-style-type: none">• Private ownership• Individual initiative	<ul style="list-style-type: none">• Government plays a limited role in economy	<ul style="list-style-type: none">••

Political Dictionary

<ul style="list-style-type: none">• capitalism• factors of production• capital• entrepreneur• free enterprise system	<ul style="list-style-type: none">• free market• laws of supply and demand• monopoly• laissez-faire theory
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Objectives

1. Identify the factors of production.
2. Describe the free enterprise system and laissez-faire theory.
3. Analyze the role of government in a mixed economy.
4. Compare and contrast three types of business organizations.
5. Explain the role of profit and loss in a free enterprise system.

Image Above: Small businesses are an essential part of a free enterprise system.

You have confronted these questions several times in this book: What are the functions a government ought to undertake? What should it have the power to do? What should it not be allowed to do? Certainly these questions can be asked of just about all areas of human activity, but they are raised very significantly in the realm of economic affairs.

Questions of politics and economics are inseparable. The most important economic questions faced by a nation are also political questions. For example: Who should decide what goods will be produced? How should goods and services be distributed and exchanged within a nation? What types of income or property ought to be taxed? What social services should a government provide to its citizens?

Capitalism provides one response to all of these questions. **Capitalism** is an economic system in which individuals are free to own the means of production and maximize profits. Many aspects of capitalism will be familiar to you because the United States and most other nations in the world today have adopted this economic system.

Factors of Production

Certain resources are necessary to any nation's economy, no matter what economic system is in place. Economists call these basic resources, which are used to make all goods and services, the **factors of production**.

Land Land, which in economic terms includes all natural resources, is an important factor of production. Land has a variety of economic uses, such as agriculture, mining, and forestry. Along with farms and other property, economists categorize the water in rivers and lakes and the coal, iron, and petroleum found beneath the ground as part of the land itself.

Capital A second factor of production is **capital**—all the human-made resources that are used to produce goods and services. Physical capital (also called "capital goods") includes the buildings, machines, computers, and other materials workers need to turn land and another factor, labor, into goods and

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Focus on the Basics

FACTS: • Entrepreneurs bring together the factors of production to create goods and services. • The laws of supply and demand determine the market prices. • Laissez-faire theory holds that the government should play a very limited role in society. • Three types of businesses exist in the U.S.: sole proprietorships, partnerships, and corporations.

CONCEPTS: economic systems, laissez-faire theory, role of government

ENDURING UNDERSTANDINGS: • The United States has a mixed economy in which private enterprise and governmental participation coexist. • In a free enterprise system, consumers, entrepreneurs, and workers enjoy freedom of choice. • Capitalist economies are driven by the desire to make a profit.

and services. Note that capital is a product of the economy that is then put back into the economy.

Labor Yet another factor of production is a human resource—labor. Men and women who work in mines, factories, offices, hospitals, and other places all provide labor that is an essential part of a nation's economy. In a capitalist, or free market, economy, individuals “own” their labor and can sell it to any employer. Human capital includes the knowledge and skills that workers gain from their work experiences—an investment in themselves.

One who owns capital and puts it to productive use is called a capitalist. That term is applied to people who own large businesses or factories as well as investors and the owners of small businesses. The American economy is called capitalistic because its growth depends very largely on the energy and drive of thousands of individual capitalists, not the government.

The Role of the Entrepreneur To actually produce goods and services, someone must bring together and organize the factors of production. An **entrepreneur**—literally, an “enterpriser”—is an individual with the drive and ambition to combine land, labor, and capital resources to produce goods or offer services, and is willing to risk losses and failure. Entrepreneurs start businesses and make them grow, creating jobs and goods and services that contribute to a high standard of living.

Free Enterprise System

Capitalism is frequently referred to as a **free enterprise system**, which is an economic system characterized by private ownership of capital and by investments that are determined by private decision, not by public authorities. This system needs a **free market**, a market in which buyers and sellers are free to buy and sell as they wish. A free market is most likely to exist in a democratic nation, such as the United

Checkpoint
Why are the factors of production important?

Get Started

LESSON GOALS

Students will . . .

- examine the factors of production and the fundamental factors of free enterprise by completing concept webs.
- discuss and vote on what they feel is the proper level of government control in the economy.
- work in groups to create and present arguments advocating the free enterprise system.

BEFORE CLASS

Assign the section, the graphic organizer in the text, and the Reading Comprehension Worksheet (Unit 6 All-in-One, p. 64) before class.

L2 Differentiate Reading Comprehension Worksheet (Unit 6 All-in-One, p. 66)

BELLRINGER

Display the blank Concept Web Graphic Organizer transparency and write on the board: **Look at the “Factors of Production” diagram in your textbook. Then create and complete a concept web about the factors.**

Factors of Production

Land, labor, and capital are the building blocks of the economy known as the factors of production. The entrepreneur brings these three factors together to create something consumers will buy. **Look up “land” and “capital” in the dictionary. How do economists’ definitions differ from what you found?**



Land includes property and the resources found in nature.

Labor describes the work of individuals.

Capital includes the tools, money, and human expertise that turn labor and land into goods and services.

Entrepreneurs

are risk-taking individuals who have the skill and drive to create new products or services for the market.

Goods and Services

are the items people buy and the things one does for another or for the community.

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Differentiated Resources

The following resources are located in the All-in-One, Unit 6, Chapter 23, Section 1:

- L2** Prereading and Vocabulary Worksheet (p. 61)
- L3** Reading Comprehension Worksheet (p. 64)
- L2** Reading Comprehension Worksheet (p. 66)
- L3** Core Worksheet (p. 68)
- L3 L4** Extend Worksheet (p. 70)
- L3** Quiz A (p. 71)
- L2** Quiz B (p. 72)

Answers

Checkpoint because they are the basic resources that are used to make all goods and services

Factors of Production Economists include all natural resources, including water, in “land,” not just the part of the earth’s surface not covered by water. The dictionary defines “capital” as wealth in money or property. Economists consider “capital” to be all human-made resources put to productive use and then reinvested in the economy, including physical goods, such as machines and materials.

Teach

To present this topic using online resources, use the lesson presentations at **PearsonSuccessNet.com**.

INTRODUCE THE TOPIC

Explain that this lesson is about capitalism, or the free enterprise system, and how that system works in the United States. Begin by reviewing the Bellringer activity. Point out that the factors of production (*land, labor, and capital*) are the basic resources (*rivers, workers, and tools*) required to make goods and services in all economic systems, including capitalism. In a free enterprise system, entrepreneurs bring these resources together to make goods and services. Ask: **If you were an American entrepreneur starting a new restaurant, what factors of production would you need?** (*land: a space for the restaurant and parking; labor: chef, wait persons, cashier, bus persons, hosts or hostesses, dishwashers; capital: money, computers, a building, meal preparation appliances, ingredients for food preparation, skills/ knowledge*)

Next, draw or display a blank transparency of a concept web. Label the web "The Free Enterprise System." Work with students to complete the concept web through discussion of the features of capitalism. Ask: **What are the four fundamental factors in a free enterprise system?** (*private ownership, individual initiative, profit, and competition*) Add ovals for each of these factors. Ask: **How would these factors of the free enterprise system encourage entrepreneurs, like the restaurant owner, to start new businesses?** (*The free enterprise system allows private ownership of the factors of production and the freedom to choose how to use them to produce goods and services. Entrepreneurs who have drive, talent, and a willingness to accept the risk of loss can use their factors of production to start a business and keep the profits they earn. Competition encourages business owners to improve goods and services and hold prices down, which benefit consumers.*)

Answers

Checkpoint an economic system characterized by private ownership of capital and by investments that are determined by private decision, not by public authorities

Elements of Free Enterprise possible response: preserve competition by preventing monopolies and trusts that interfere with the free market; supply justice system to protect private property

Checkpoint
What is the free enterprise system?

States, where security and the rule of law are protected by the government.

A free enterprise system lets consumers, entrepreneurs, and workers enjoy freedom of choice. Consumers can choose from a variety of products and services. Entrepreneurs can switch from one business to another. Workers can quit their jobs and seek new ones, and they can choose to organize labor unions as a way to bargain for better working conditions or benefits.

A capitalistic system—a free enterprise system—is based on four fundamental factors: private ownership, individual initiative, profit, and competition.

Private Ownership In a capitalistic system, private individuals and companies own most of the factors of production—the basic resources used to produce goods and services. They decide how this productive property will be used—for example, to build a business or invest in technology. What the property produces is theirs, as well. The owners of productive property are sometimes individuals, but more often they are groups of people who share ownership of a company.

In a free enterprise system, individuals own the right to their own labor. They sell that labor by taking a job, and the pay they receive represents the price paid for their work. In other economic systems, workers may have little choice as to the kinds of work they will do and little opportunity to change jobs or pay.

The protection of the rights of private ownership is also important, particularly in the United States. The 5th and 14th amendments declare that no person may be deprived "of life, liberty, or property, without due process of law." The 5th Amendment also says that "just **compensation**" must be paid to owners when private property is taken for public use.

Individual Initiative In our economy, entrepreneurs are an essential factor in the production of goods and services. Under a free enterprise system, all individuals are free to start and run their own businesses (their own enterprises). They are also free to dissolve those businesses. Importantly, the atmosphere of a free market, as well as a free society that encourages the exchange of ideas, can and often does lead to innovation and scientific and technological discoveries.

Elements of Free Enterprise

Free markets cannot succeed without these four basic elements: private ownership, individual initiative, profit, and competition. Supported by the rule of law and by the people, these factors allow for the many market transactions that define a free enterprise economy. *What is the role of the government in preserving the elements of free enterprise?*



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Constitutional Principles

LIMITED GOVERNMENT Adam Smith's book *The Wealth of Nations* introduced not only laissez-faire capitalism, but also the idea of economics as a separate discipline. Smith advocated severe limits on government intervention in the economy. He was specifically responding to the English government's practice at that time of forming monopolies and granting exclusive trading rights to certain companies. However, Smith's ideas also stemmed from his belief that people's capacity for reason regulated their actions, and could influence the economy more than government could.

These promote growth in the economy and often improve the quality of everyday life.

That is not necessarily true in other economic systems. In some countries, government planners decide what will be produced and how it will be made. There, centralized decision making, not individual initiative, controls the production and distribution of goods and services.

Profit Just as individuals are free to choose how they will spend or invest their capital in a free enterprise system, they are also entitled to benefit from whatever their investment or enterprise earns or gains in value. The “profit motive” is the desire to gain from business dealings. It drives entrepreneurs to create goods and services people will want to buy, and is a major reason why entrepreneurs are willing to take risks.

Competition The freedom to enter or start a new business at any time leads to competition. Competition is a situation in which a number of companies offer similar products or services. They must compete against one another for customers. In a free enterprise system, competition often helps to hold down

prices and keep quality high. This is usually the case because customers are likely to buy from the company with the best product at the lowest price. Competition promotes efficiency; the producer has the incentive (more sales) to keep costs low.

Under these competitive conditions, the **laws of supply and demand** determine the market price for goods or services. Supply is the quantity of goods or services available for sale at a range of prices. As the price increases, more of a product will be offered for sale. Demand is the desire and ability to purchase a good or service. As the price falls, more of a product will be demanded by buyers. If supply increases and demand stays the same, prices will fall. If demand decreases and supply stays the same, prices will also fall. On the other hand, if demand increases and supply stays the same, prices will rise.

Competition does not always work smoothly. Sometimes a single business becomes so successful that all its rivals go out of business. A firm that is the only source of a product or service is called a **monopoly**. Monopolies can be very powerful in the marketplace. Practically speaking, they can charge as much as they want for a product. Since there is no other supplier of that good or service, the consumer must pay the monopoly’s price or do without.

In the late nineteenth century, political leaders in the United States gradually became convinced that certain monopolies were stifling competition and interfering with the free market. They were especially concerned about a type of monopoly called a trust. A trust exists when several corporations in the same line of business work together to eliminate competition from the market and regulate prices. By the latter part of the nineteenth century, trusts had gained tight-fisted control over the markets for petroleum, steel, coal, beef, sugar, and other commodities.

In response, Congress passed the Sherman Anti-Trust Act of 1890, which remains the basic law to curb monopolies today. It prohibits “every contract, combination in the form of a trust or otherwise, or conspiracy in restraint of trade or commerce among the several States, or with foreign nations.”



Political Cartoon Mini-Lesson

Display Transparency 23A, Government and the Free Market, when you discuss laissez-faire theory. This cartoon suggests a possible consequence of government interference in the economy. Ask: **Whom do the people represent?** (*average consumers*) **What must the free market do to deliver its product to the consumers?** (*It must navigate a maze created by government meddling in the economy.*) **What does the cartoonist suggest is the result of government intervention in the economy?** (*higher prices*) **What do you think this cartoonist believes is the proper role of government in the economy?** (*laissez-faire, or as limited a role as possible*)

L2 ELL Differentiate Write *enterprise* and *entrepreneur* on the board. Clarify that an *enterprise* is a new business or project. Pronounce the word *entrepreneur*. Explain that it is a French word with the same root as *enterprise*, and underline *enter-lentre-* in the two words. Tell students that both words are from an Old French verb meaning “to begin or undertake.” Remind students that *entrepreneur* means “an enterpriser, or a person who starts a new business.”

DISCUSS THE LAISSEZ-FAIRE THEORY

Write *laissez-faire theory* on the board, and pronounce it for students. Ask a volunteer to define the term. Tell students that, although the trend over the last 100 years has been toward more government control, and that United States has a mixed economy, some people believe that the government should have little or no role in the economy—that the “invisible hand” of the market should be left to work on its own.

Discuss with students how freely they think the economy should be allowed to operate. Use the Think-Pair-Share strategy (p. T22) to generate a class list of ways in which the government currently controls or manages the economy. For example, government controls interest rates to stabilize the economy and minimize inflation; regulates business practices to promote fair competition, ensure product safety and truthful labeling, and protect the environment; provides Social Security and Medicare/Medicaid; oversees the stock market; taxes some goods, such as gasoline; and taxes income. List each example students offer and then for each, ask: **How would life for Americans be different if the government did not carry out this activity?**

When you have finished the discussion, take a vote on what level of control the government should have. Tell students to raise both hands if they think that the government should be more laissez-faire, raise one hand if they think government involvement is about right, and raise no hands if they think there should be more government control. Take a count and then ask students from each group to explain their viewpoint.

L2 ELL Differentiate Ask students from different countries to compare and contrast an aspect of government control of the economy in the United States to government control of the economy in their countries of origin.

Answers

Checkpoint Competition often helps to hold down prices and keep quality high.

Tell students to suppose that a nation has just won independence and its leaders are trying to determine what type of economic system to establish. Students will act as economic advisers and pitch to that nation's leaders the concept of a mixed economy, with an emphasis on free enterprise.

Divide the class into small groups. Distribute the Chapter 23 Section 1 Core Worksheet and enough copies of the accompanying Presentation Evaluation Worksheet to allow students to evaluate the work of all other groups (Unit 6 All-in-One, pp. 68–69). Assign each group one aspect of the free enterprise system—private ownership, individual initiative, profit, and competition; assign two other groups to present facts about the benefits of mixed economies and types of business organizations. Students will make their presentations to the whole class. Tell students they will use the worksheet to organize their presentations. To engage them in active listening, tell students that they will use the evaluation worksheets to judge the effectiveness of each group's presentation.

L2 Differentiate Review the outline format. Then walk through the worksheet as a class, rather than letting students work on their own, outlining the main points for each assignment on the board. Be sure to give students a few minutes to think about it on their own before you begin.

Name _____	Class _____	Date _____
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QUARTER <div style="font-size: 2em; font-weight: bold; margin: 5px 0;">23</div> SECTION 1	CORE WORKSHEET <div style="font-size: 1.5em; font-weight: bold; margin-top: 10px;">Capitalism</div>
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3

Presentation on the Free Enterprise System

Follow the steps below to create a presentation on one aspect of the free enterprise system.

1. Divide up tasks for researching, outline writing, preparing visuals, and presenting.
2. Gather information about your topic from the textbook and additional research.
3. Use the information to create an outline.
4. As a group, review the outline and revise it, based on feedback from group members.
5. Create a first draft of the presentation based on the final outline.
6. Prepare relevant visuals, such as charts, graphs, and photographs.
7. Rehearse the presentation with your group and collect feedback from group members.
8. Use the feedback to revise the presentation into final form.
9. Make your presentation to the class.

My Group's Topic: _____

Presentation Outline:

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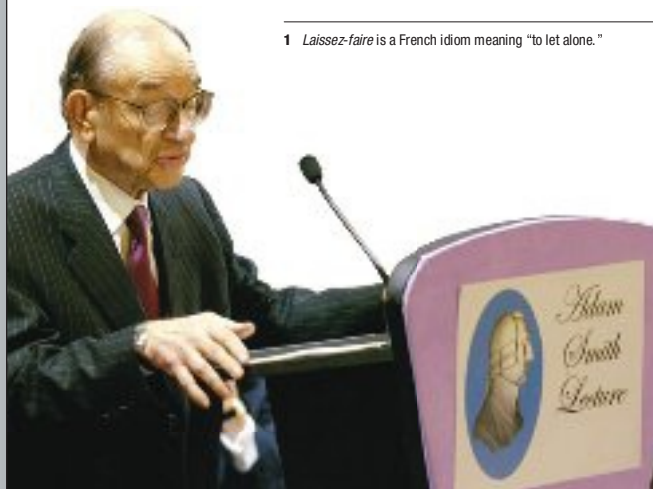
Checkpoint Monopolies can threaten competition in a market, leaving consumers to either pay or do without.

The Anti-Trust Division in the Department of Justice watches business activities to determine whether competition within an industry is threatened. It can, for example, stop the sale or merger of a company if that move threatens competition in a particular market. On rare occasions, the Justice Department has acted to break up a monopoly to restore competition.

Early capitalist philosophers believed that, if only government did not interfere, the free enterprise system would work automatically. Adam Smith presented the classic expression of that view in his book, *The Wealth of Nations*, in 1776. Smith wrote that when all individuals are free to pursue their own private interests, an “invisible hand” works to promote the general welfare. In short, Smith introduced laissez-faire capitalism.¹

Laissez-faire theory holds that government should play only a very limited, hands-off role in society. Governmental activity should be confined to: (1) foreign relations and national defense, (2) the maintenance of police and courts to protect private property and the health, safety, and morals of the people, and (3) those few other functions that cannot be performed by private enterprise at

Former Federal Reserve Chairman Alan Greenspan speaks on economics at a lecture honoring Adam Smith.



1 *Laissez-faire* is a French idiom meaning “to let alone.”

a profit. The proper role of government in economic affairs should be restricted to functions intended to promote and protect the free play of competition and the operation of the laws of supply and demand.

Laissez-faire capitalism has never in fact operated in this country. The concept has had, nevertheless, and still has, a profound effect on the structure of the economic system in the United States.

Although the American economic system is essentially private in character, government has always played a large part in it. Economists usually describe an economy in which private enterprise and governmental participation coexist as a mixed economy.

Government at every level regulates the various features of American economic life. Among its many other functions, government prohibits trusts, protects the environment, and ensures the quality of the food we eat.

Government also promotes many aspects of American economic life. It constructs roads and highways, provides such services as public health programs, the census, and weather reports, and operates Social Security and other insurance programs. It also offers many kinds of subsidies and loan programs to help entrepreneurs and businesses prosper.

Federal, State, and local governments conduct some enterprises that might well be operated privately—for example, public education, the postal system, and municipal water and power systems. It has also assumed some functions that have proved unprofitable to private enterprise—for example, many local transit systems and waste disposal and recycling projects. These sorts of public efforts are sometimes called “ash-can socialism.”

Mixed economies are common in Europe and in most former communist countries. In Britain, the government provides free medical care to all. The government of the People's Republic of China owns steel mills and factories. Germany's federal government requires large companies to give workers representation on managing boards, and France once banned most companies from asking

CONTROLLING MONOPOLIES Even when the Department of Justice fails to win an anti-trust case, it can change an industry. Thirty years ago, computers were big, expensive, and nearly always manufactured by IBM. Federal lawyers pursued IBM for 13 years, forcing the company to deal very carefully with companies that wrote software for its machines. The United States abruptly dropped its lawsuit in 1982; but by that time, technology and IBM's weaknesses had reshaped the computer market. Today, IBM is one of many computer manufacturers. Microsoft, the software company that used IBM's troubles to set the standard in operating systems, was itself tried on the grounds that it violated the Sherman Anti-Trust Act.

Supply and Demand:

How are prices set in a free market?

In general, suppliers will produce more goods when prices are high and fewer goods when prices fall. Consumers usually seek to purchase (demand) more of a commodity at low prices and less at high prices. Where people enjoy the freedom to trade, they will find the market price that suits both sides. **What is a market signal that a price is too high?**

Price	Suppliers produce	Consumers want	What happens?
\$5.00	5,000	20,000	<ul style="list-style-type: none"> • Not enough for sale • Empty shelves
\$15.00	10,000	10,000	<ul style="list-style-type: none"> • Market price • Both sides happy
\$30.00	20,000	5,000	<ul style="list-style-type: none"> • Too many t-shirts • Too few buyers



employees to work more than 35 hours per week. In each of these mixed economies, government intervention coexists with independent companies and market forces.

Types of Business Organizations

The American economy contains a number of gigantic companies with thousands of employees and factories or offices all over the world. Still, most businesses in the United States are relatively small. Over 95 percent of all businesses in this country employ fewer than 20 people. Three basic types of business organizations exist: sole proprietorships, partnerships, and corporations. Each has advantages and disadvantages.

Sole Proprietorships Businesses owned by a single individual are called sole proprietorships. Typical businesses in this category include such categories as hair salons, auto repair shops, and dentists' offices. About three quarters of all businesses in this country are sole proprietorships. However,

because most sole proprietorships are small, they produce only a minor fraction of annual sales in the United States.

Sole proprietorships are the most flexible form of business organization. Their major advantage is that the single owner can make decisions quickly. He or she has full control of the company and can draw a salary or close the business without consulting others. A major disadvantage is that the owner is personally **liable** for the debts the business might acquire. Sole proprietorships are also limited by the owner's ability to contribute resources and manage the business.

Partnerships Businesses owned by two or more individuals, called partners, are known as partnerships. Lawyers and architects are among those professionals who often work together in partnerships.

One advantage of a partnership is that it can draw on the resources of more than one person for the capital necessary to start or expand a business. Different people bring different strengths and perspectives to a business, and a partnership can provide a

Checkpoint
What are the three types of business organizations?

liable
adj responsible

Tell students to go to the Audio Tour to listen to a guided tour of Supply and Demand.

EXTEND THE LESSON

L3 L4 Differentiate Assign the Extend Worksheet (Unit 6 All-in-One, p. 70), which is an excerpt from Adam Smith's *Wealth of Nations*. After students have answered the questions on the worksheet, have them summarize the selection in a paragraph, using their own words. Then ask them to find specific examples in the passage that refer to the idea of limited government involvement in the economy.

L2 ELL Differentiate Have students work in small groups to create a collage about the free enterprise system that includes images describing or depicting the concepts of private ownership, individual initiative, profit, and competition. Students should draw or collect images from the Internet, magazines, or newspapers that express these ideas. Have a volunteer from each group present the collage to the class.

L2 Differentiate Ask students to use a local phone book or the Internet and list two businesses from your community under each of the following categories, and identify what good or service it produces: sole proprietorship, partnership, and corporation. Tell students to decide, based on their research, which type of business seems to be the most common in your community.

L4 Differentiate Have students locate, read, and write a report on a nonfiction book about the American free enterprise system, an American entrepreneur, or how an American business operates. Reports should include an analysis of the author's main points, conclusions, and biases. Students should state whether they agree or disagree with the author, and assess the book's reliability and interest value to a general reader.

Background

SUPPLY AND DEMAND Use Transparency 23B to show how supply and demand work together to set prices in a free market. This transparency shows in graph form the hypothetical data in the text feature "Supply and Demand." Ask: **At \$5, how many T-shirts will shirt makers supply? (5,000) How many will consumers want to buy? (20,000) Faced with such great demand for their shirts, how do you think shirt makers will adjust their price? (raise it) Suppose they raise the price to \$30. How many T-shirts will makers supply and consumers buy? (20,000; 5,000) How will makers adjust price based on sagging demand? (lower it) At \$15, how many T-shirts will makers supply and consumers demand? (10,000)** The price at which the supply and demand lines intersect is the market price—the price at which the quantity supplied equals the quantity demanded.

Answers

Supply and Demand Demand for the product falls, so that supply exceeds demand.

Checkpoint sole proprietorships, partnerships, and corporations

Assess and Remediate

L3 Collect the Core Worksheet and assess the students' work, using the criteria on the Presentation Evaluation Worksheet (Unit 6 All-in-One, p. 69).

L3 Assign the Section 1 Assessment questions.

L3 Section Quiz A (Unit 6 All-in-One, p. 71)

L2 Section Quiz B (Unit 6 All-in-One, p. 72)

Have students complete the review activities in the digital lesson presentation and continue their work in the Essential Questions Journal.

REMEDIATION

If Your Students Have Trouble With	Strategies For Remediation
The role of the U.S. government in the economy (Questions 1, 4, 6)	Ask students to write a few sentences or words that summarize the role of the government in the U.S. economy.
Factors of production (Question 2)	Review the information from concept webs students created in the lesson. Have students add additional specific examples of the factors of production.
The role of entrepreneurs (Question 3)	Ask students to re-read the information under "The Role of the Entrepreneur," and write a job description for an entrepreneur.
Types of business organizations (Question 5)	Have students re-read "Types of Business Organizations" and make a bulleted list of the features of each type.

Answers

Checkpoint Partnerships can draw on the resources of more than one person for capital, and different people bring different strengths to the business. However, these differences can lead to conflict.

Checkpoint What are the advantages and disadvantages of a partnership?

useful framework for entrepreneurs to use their skills to create a small business. These differences can also lead to conflict among partners, however; and partnerships may dissolve if one of the partners leaves or dies.

Corporations Corporations include both very small companies and large multinational firms. Unlike partnerships, corporations almost always have many owners, called shareholders. A share is a fraction of ownership in the corporation, and a shareholder is any person or group owning one or more shares. A corporation can continue indefinitely because a shareholder's death does not affect the legal status of the corporation. In other words, the corporation exists as its own legal entity, independent from the existence of any shareholders. The Supreme Court has often held that, under the 14th Amendment, a corporation occupies the same legal position as a person.

Corporations can draw their capital from hundreds and even thousands of investors. This characteristic enables them to finance such costly projects as artificial satellites or oil pipelines. Shareholders are responsible only for the amount of money they have invested. If the business fails, they can lose that amount, but no more. Shareholders have limited liability and are not held responsible for any debts the corporation might have.

Corporations suffer this disadvantage: The income they produce is taxed twice. First, the corporation pays a tax on its profits. Then, individual shareholders pay a tax on the dividends they receive.

Profit and Loss

What drives the capitalist economy? The best answer, most often, is profit.

To understand what profit is, you must first understand the idea of investment. An investment is a sum of money—capital—that is put into a business enterprise. For example, if you buy a van to start an express delivery business, what you pay for the van is an investment in the business.

Your profit will be the amount of money you earn from the business, after you have subtracted the costs involved in making that money—in this case, the purchase of the van and the costs of operating it, plus whatever you pay yourself. If earnings are less than the costs, the business has not made a profit; it has, instead, suffered a loss.

Taking risks and making investments are, therefore, an essential part of the capitalist system. Every year, many businesses fail because they do not produce a profit. The businesses that survive tend to be those whose owners have learned to make the most efficient use of the factors of production.

SECTION 1 ASSESSMENT

Essential Questions Journal To continue to build a response to the chapter Essential Question, go to your Essential Questions Journal.

- 1. Guiding Question Use your completed chart to answer this question: What is the role of government in the American economy?
- Key Terms and Comprehension
- 2. (a) What is physical capital? (b) What is human capital? (c) How do economists define land as a factor of production?
- 3. Why are entrepreneurs important?
- 4. What is the role of government in a mixed economy?

- Critical Thinking
- 5. Make Comparisons Which type of business organization would be most appropriate for: (a) a large bus company? (b) a nonchain coffee shop? Explain.
- 6. Draw Conclusions Identify two arguments that can be made for and two against government participation in a free enterprise economy.

Quick Write Expository Writing: Select a Topic and Record Details The goal of a compare-and-contrast essay is to analyze similarities and differences between two topics. In this chapter, you will learn about different economic systems: capitalism, socialism, and communism. As you read the chapter, use a Venn diagram to record similarities and differences between two of these systems.

Assessment Answers

- 1. The U.S. government regulates parts of the economy to, for example, prohibit trusts, protect the environment, and ensure food quality. Government participates in the economy by providing roads, public health programs, loans, and public education.
- 2. (a) human-made goods, such as buildings, machines, and materials, that workers use to turn labor and land into goods and services (b) knowledge and skills that workers gain from their work experience (c) all natural resources

- 3. because they start businesses and make them grow, creating jobs, goods, and services that contribute to a high standard of living
- 4. The government regulates and participates in parts of the economy. For example, government prohibits trusts, protects the environment, ensures food quality, operates social insurance programs, provides loans, and conducts postal service and public education.
- 5. (a) a corporation (b) a sole proprietorship or partnership. The first company is very large with many employees, so would benefit from

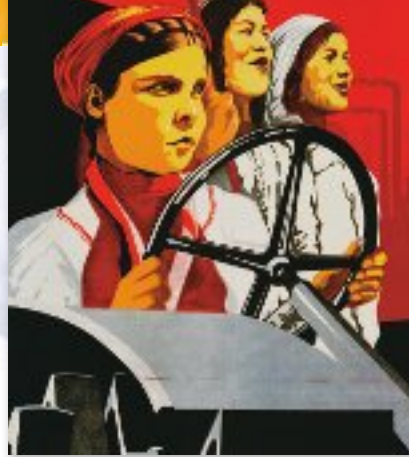
a corporate structure for management and from money from shareholders for growth. The coffee shop is a very small company with few employees and could be financed and managed by one or a few people.

6. for: to ensure market fairness and to protect consumers; against: the free market operates best with few controls and people should make their own economic choices

QUICK WRITE Students' Venn diagrams should compare and contrast two economic systems.

SECTION 2

Socialism and Communism



Guiding Question

What is the role of government under socialism and communism?

Create a table similar to the table below to record information about the role of government under socialism and communism.

Role of Government	
Socialism	Communism
<ul style="list-style-type: none"> • State owns largest industries • • 	<ul style="list-style-type: none"> • • •

Political Dictionary

- *The Communist Manifesto*
- socialism
- communism
- welfare state
- command economy
- five-year plan
- collectivization
- privatization
- Great Leap Forward

Objectives

1. Summarize the theories of Karl Marx and their roots.
2. Identify important characteristics of socialist economies.
3. Outline the characteristics of communist economies.
4. Describe socialism and communism in action today.
5. Evaluate the effects of socialism and communism.

Image Above: Communist artwork often celebrated workers in industry and agriculture.

You know that in the United States everyone is entitled to the equal protection of the law. Political equality, of course, is not the same as economic equality. The capitalist system of the United States allows some to achieve greater financial rewards than others are able to. However, other economic systems—socialism and communism—do seek to distribute wealth more evenly across the society.

Karl Marx's Theory

Karl Marx (1818–1883), the father of modern socialism and communism, was the most significant critic of capitalism as it developed during the early stages of the Industrial Revolution. Numerous observers of working conditions in nineteenth-century factories were appalled by what they found. Those conditions led many of them to seek social and economic reforms. Marx and his colleague Friedrich Engels (1820–1895) argued for much more radical change than did most of their contemporaries.

Writings Marx and Engels first published their basic concepts in *The Communist Manifesto* in 1848. That political document condemned the miseries of the Industrial Revolution and called upon oppressed workers throughout Europe to free themselves from “capitalist enslavement.” The Manifesto ended with this rallying cry:

PRIMARY SOURCE

The proletarians have nothing to lose but their chains. They have a world to win. Workingmen of all countries, unite.

—*The Communist Manifesto*

The Communist Manifesto and Marx's later multivolume work, *Das Kapital*, published in 1867, 1885, and 1894, were based on four closely related concepts: Marx's theory of history, the labor theory of value, the role of institutions, and the dictatorship of the proletariat.

GUIDING QUESTION

What is the role of government under socialism and communism?

Role of Government	
Socialism	Communism
<ul style="list-style-type: none"> • State owns largest industries • State provides pensions, universal health care, free university education, housing • State collects high taxes • State makes many economic decisions 	<ul style="list-style-type: none"> • Communist Party holds decision-making power in government and economy • State controls social, intellectual, and religious life • State makes all economic decisions—plans and supervises production in factories, farms, and stores • Five-year plans set goals for growth in industry and agriculture, what individual businesses should produce, prices, and distribution • State ownership of means of production • State-owned, collective farms • State-owned industry and transportation • In some Communist states, local governments own housing, banks, hospitals, and stores

Get Started

LESSON GOALS

Students will . . .

- use a transparency to discuss the theories of Karl Marx.
- complete a chart that compares and contrasts economic systems.
- role play and write a dialogue to compare and contrast life under capitalism and communism.
- write a journal entry evaluating economic systems.

SKILLS DEVELOPMENT

DECISION MAKING

To help students learn decision making, have them turn to the Skills Handbook, p. S18, and use the information there to help them when discussing the four Marxist concepts in this section.

Focus on the Basics

FACTS: • Socialism and communism are based on theories of Karl Marx. • Socialist economies involve some nationalization, broad public welfare, high taxes, and some central planning. • Communist governments control most aspects of economic, social, intellectual, and religious life.

CONCEPTS: economic systems, role of government

ENDURING UNDERSTANDINGS: • Under socialism and communism, the government has much more active and direct control over the economy than under capitalism.

• Communism failed in Russia; the few remaining Communist nations are loosening economic controls.

BEFORE CLASS

Assign the section, the graphic organizer in the text, and the Reading Comprehension Worksheet (Unit 6 All-in-One, p. 73) before class.

L2 Differentiate Reading Comprehension Worksheet (Unit 6 All-in-One, p. 75)

BELLRINGER

Distribute the Bellringer Worksheet (Unit 6 All-in-One, p. 77). Have students complete the chart, based on their reading.

L2 ELL Differentiate To help them complete the worksheet, allow students to choose one column or row to fill in.

commodity
n. anything bought or sold

authoritarian
adj. demanding total obedience

1. Marx's View of History: To Marx, all of history was a story of class struggle—of social classes competing for the control of labor and productive property. One class was the oppressor; the other, the oppressed. In the modern world, the bourgeoisie—the capitalists—oppressed the proletariat—the workers. According to Marx, the class struggle in the modern era would become so intense that, inevitably, the masses would revolt and bring down the bourgeoisie.

2. The Labor Theory of Value. Marx rejected the free enterprise ideas of profit and competition. In his view, the value of a **commodity** was set by the amount of labor put into it. A pair of shoes or a rebuilt bicycle is worth a certain amount because it takes that much labor to produce it. Marx argued that the laborer should receive that value in full.

3. The Role of Institutions. Marx saw the state and its government as tools by which capitalists maintained their power and privileges. Other social institutions also played a role in enforcing capitalist control over the masses. Marx described religion as “the opiate of the people”—a drug that persuades workers to tolerate their harsh lot in this life in the hope that someday they will gain what Marx called a “fictional afterlife.”

4. The Dictatorship of the Proletariat. Marx did not believe that revolution would automatically bring about the final goal of communism—the classless society. First, he predicted a transitional phase during which an **authoritarian** state would represent and enforce the interests of the masses. This he called the “dictatorship of the proletariat.” Once the goal of classlessness was realized, the state, he said, would “wither away.”

Based on these four concepts, Marx envisioned a “free, classless society.” Social classes would vanish and the people would own all property in common. Exploitation of labor and unemployment would disappear. Abundant goods would be available to all according to their needs, not necessarily how much work they contributed. Marx also expected that workers in different countries—for example, France and Germany—would share a bond far stronger than national loyalties.

Thus, he theorized that communism would also bring an end to nationalism, a major cause of European wars.

Socialists and Communists Many European workers and thinkers of the middle and late nineteenth century accepted Marx's criticisms of capitalism. His followers were deeply divided, however, by the question of how best to achieve a more equitable economy. Some argued that economic equality could be attained by peaceful, democratic means. Today, the terms **socialism** and **socialist** are usually used to identify those evolutionary ideals and the people who support them. Others argued that a fair society could come only out of a violent revolution, born out of class struggle. Over time, those who took that more strictly Marxist view came to be called communists, the advocates of **communism**.

Characteristics of Socialist Economies

Countries with a socialist government typically enact one or more of a set of public policies to achieve the basic aims of socialism. These policies include nationalization, broadening of public services, high taxation, and a command economy.

Nationalization Placing enterprises under governmental control, often by taking over privately owned industries, is called nationalization. In a socialist society, nationalization rarely includes all businesses within the country. Socialist governments usually want to control only certain segments of the economy—those having many workers, a few dominant firms, and great importance to other businesses—particularly, utilities, transportation, and steel. Many smaller companies remain in private hands. The government may also want industries that are based on new technologies to remain in private hands. It often does because individual initiative and entrepreneurship are so vital in the early phases of the development of a business.

Many socialist governments want to give each company's workers a say in deciding how a company is to be managed. Elected

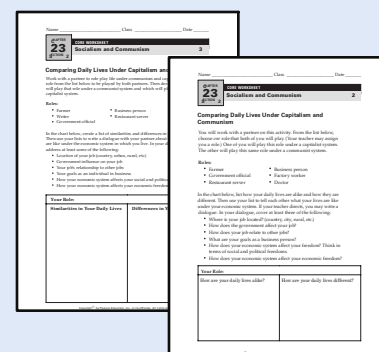
Differentiated Resources

The following resources are located in the All-in-One, Unit 6, Chapter 23, Section 2:

- L3** Reading Comprehension Worksheet (p. 73)
- L2** Reading Comprehension Worksheet (p. 75)
- L3** Bellringer Worksheet (p. 77)
- L3** Core Worksheet (p. 78)
- L2** Core Worksheet (p. 79)
- L3** Section Quiz A (p. 80)
- L2** Section Quiz B (p. 81)

Answers

Checkpoint Possible answer: Marx's theories have affected the lives of millions of people during and after his lifetime.



worker representatives now sit on the boards of directors of many major companies in both Sweden and Germany.

Public Welfare Socialists aim to guarantee the public welfare by providing for the equal distribution of such necessities and services as retirement pensions, universal healthcare, free university education, and housing. Any country that provides extensive social services at little or no cost to consumers is a **welfare state**.

In a welfare state, medical and dental services often are provided free or at a small charge. People who lose their jobs or who are physically unable to work receive government payments that are nearly as high as their former wages. All those who reach retirement age receive government pensions. Parents are often paid a benefit for each child until that child reaches the age of 18. Workers in several European nations receive paid maternity leave, often for both parents, and several weeks of paid vacation each year, considerably more than most American workers receive.

Taxation All governments in both capitalist and socialist states are funded by taxation. Because social welfare services are quite expensive, taxes in socialist countries tend to be relatively high. Taxes regularly take as much as 50 or 60 percent of an individual's yearly income. Socialists tend to place most of the tax burden on the upper and middle classes, in line with their aim to achieve a more equal distribution of wealth. However, gasoline and consumer goods are also subject to high taxes.

A Command Economy Economies can be divided into several categories, depending on how basic economic decisions are made. Under capitalism, key decisions are made by thousands of private individuals and companies through the give-and-take of the marketplace. Under socialism, and even more so under communism, economic decision making is more centralized. In a **command economy**, government bureaucrats plan for the development of the economy over a period of years. They set targets for production and direct investments to specific industries.

National Healthcare

What is the Cost of Free Healthcare?

The United Kingdom's National Health Service provides free healthcare to all, funded by the national government. While the ideal of national healthcare is widely popular in the U.K. (top), many people complain about long waits for treatment (bottom). *What might the law of supply and demand predict for a free healthcare system?*



Socialism Today

Although most socialist parties in Europe have given up such traditional goals as nationalizing important industries, these parties promote socialism as it exists today. At various times in recent history, socialist parties have controlled governments and instituted socialist programs through democratic means. However, socialist parties in Britain, France, and Germany have

Checkpoint
What defines a socialist economy?

Chapter 23 • Section 2 687

Teach

To present this topic using online resources, use the lesson presentations at **PearsonSuccessNet.com**.

INTRODUCE THE TOPIC

Explain that this lesson is about two main economic systems with common roots: socialism and communism. Both systems grew out of the ideas of economist and philosopher Karl Marx (1818–1883) and his writing partner, Friedrich Engels (1820–1895). Display Transparency 23C, Four Major Marxist Concepts.

Divide the class into four discussion groups and assign each group one of the four concepts. Then come together again as a class. Ask: **Do you agree that history is a series of class struggles and that all conflicts are based on economics? Why or why not?** (Sample response: *I think that many conflicts are about economic issues and class struggle, but often people are in conflict over power or jealousy or something other than material goods or gain.*) **Do you think that laborers should receive the full value of the goods they produce? What about the role of the entrepreneur and the profit motive in this system?** (Sample response: *I do not think that a worker can get the full value of the goods he or she produces unless the person works alone and owns the business. If a person is an entrepreneur and creates a business and hires workers, then that person needs some of the profits to pay employees and him- or herself, and to purchase more materials and grow the business.*) **Do you think that the U.S. government is controlled by capitalists?** (Sample response: *I think that to some extent, the U.S. government is controlled by rich and powerful people, but because we have the power to vote, other groups of Americans can change that if they want to.*) **What might be the drawback of the proletarian dictatorship, even if it is a transitional phase?** (Sample response: *Any dictatorship is unfair, because it is undemocratic and does not represent the interests of all people. Just because a group was oppressed, it should not then become the oppressor.*)

Remind students that these concepts grew out of Marx's analysis of existing conditions at the birth of the Industrial Revolution, when working conditions were generally terrible. Workers were moving from "cottage industries," where they owned the factors of production and their labor, to factories in which their labor was "human capital" for someone else.

Answers

National Healthcare The more people who use the free healthcare system, the more it will cost the government to meet that demand.

Checkpoint nationalization, public welfare, high taxation, and a command economy

Debate

SOCIALIST IN THE SENATE In 2006 Bernie Sanders became the first self-described socialist to win a seat in the U.S. Senate. When interviewer Amy Goodman asked him the meaning of *socialist*, Sanders replied: "Well, I think it means the government has got to play a very important role in making sure that as a right of citizenship, all of our people have healthcare; that as a right, all of our kids, regardless of income, have quality childcare, are able to go to college without going deeply into debt; that it means we do not allow large corporations and moneyed interests to destroy our environment; that we create a government in which it is not dominated by big money interest." ("Vermont's Bernie Sanders Becomes First Socialist Elected to U.S. Senate," from *DemocracyNow*) Read this quotation to the class. Then have students debate this question: **How would you contrast Sanders's views with those of Adam Smith?**

L2 ELL Differentiate Clarify that a *class struggle* is a tension among groups of people based on their economic status. Also, explain that *Marxism* and *communism* are sometimes used to mean the same thing, although more correctly *Marxism* is a body of thought, while *communism* is the political and economic system based on that thought. Define and pronounce *proletariat* (working-class people) and *bourgeoisie* (middle class or capitalists).

Tell students to go to the Audio Tour to listen to a guided audio tour of Marxist Economies.

COMPARE ECONOMIC SYSTEMS

Review the Bellringer Worksheet by completing a class version. Ask students what they think is the strongest aspect and the biggest drawback of each system. Ask: **Why do you think communism has been so unsuccessful? Why has capitalism or socialism been more successful?** (Sample response: *Under communism, a nation often ends up being run by a totalitarian government that is extremely oppressive. The system is also not very efficient, and transitions have led to losses in productivity, instead of gains. Also, people are not encouraged to work hard or pushed to compete because there is little or no reward for individual initiative. Although capitalism does not meet all the basic needs of citizens, it does hold out at least the promise that if an individual works hard, he or she will succeed and will reap the rewards of his or her own efforts.*)

lost power or have abandoned some of their socialist objectives that have become too expensive and unpopular to maintain.

Socialism has won a large following in developing countries in Africa and more recently in Latin America. One reason for its appeal in those nations is that large existing industries have often been owned by foreign companies. By nationalizing a foreign-owned industry and placing local people in charge, a political leader can win broad public support. He or she can also gain power by promising to provide socialist-style, “cradle-to-grave” services and to redistribute land from large land owners to the poor.

For example, after he came to power in 1999, Venezuela’s President Hugo Chávez and his nationalist-socialist party, Movement for the Fifth Republic (MVR) nationalized the oil industry and used the profits to fund free education, healthcare, and low-cost housing. Chávez has also nationalized the telecommunications and electricity industries. These moves have brought support for Chávez, especially among the urban poor, and have helped him retain power, despite broad resistance to many of his socialist, or even communist, goals. Meanwhile, Venezuela’s economy has experienced inflation and shortages as a result of Chávez’s actions.



Marxist Economies

The writings of Karl Marx (below) inspired two competing movements to improve the lives of workers. Socialists hoped to change capitalism, while communists strove to destroy it. *How well do socialism and communism respect the rights of people as defined in a free market economy?*

SOCIALISM

Socialists came to power by promising social services and jobs for everyone while observing the rules of democracy. Many workers enjoy better pay and job protections, but young people often have trouble finding good jobs.

• Some central planning	• Centrally planned economy
• Most property is privately owned	• State owns all land and housing
• Only large industries are nationalized	• No privately owned businesses
• High taxes fund healthcare, child care, education	• State provides healthcare, child care, education
• Free elections	• Controlled elections
• Strong unions and worker protections	• State-controlled unions

COMMUNISM

Revolutionaries in Russia and China overthrew governments in the name of the people and created communist dictatorships. They spread communism through war and support for foreign revolutions.

**GOVERNMENT ONLINE**

Audio Tour
Listen to a guided audio tour of Marxist Economies at PearsonSuccessNet.com

688 Comparative Economic Systems

Answers

Marxist Economies Possible response: Socialism limits private ownership; communism, theoretically, forbids it. Under communism, people do not own the factors of production, including their own labor, and they lack freedom in their social, intellectual, and religious, as well as economic, lives. High taxes in both systems limit workers’ freedom to choose how to use their income.

688 Comparative Economic Systems

Background

GENERAL STRIKE OF 1926 Decades of industrial disputes in Great Britain reached a climax in 1926. Miners joined with the Trade Union Congress to reject wage cuts instituted by mine owners and supported by the prime minister, Stanley Baldwin. The owners locked out the miners, who were supported by an estimated 1.75 million other workers, in what became known as the General Strike of 1926. The strike came to a halt when the Trade Union Congress ended it after nine days, saying that the government was too well-prepared to concede. Though the miners tried to continue the strike alone, it failed. The strike divided the nation sharply along class lines and ushered in a period of government intolerance of union activities and the struggle for workers’ rights.

Characteristics of Communist Economies

Socialism represents one path from Karl Marx's theories to a modern economy. Communism describes a more dramatic and frequently violent approach, one that dominated large parts of the world in the twentieth century. In practice, communism has been less successful than socialism, and has generally led to the formation of totalitarian regimes. Marx's theories did not provide a blueprint for the formation of a communist society, and communism has taken different forms in different places. However, certain common characteristics can be seen.

1. Role of the Communist Party. In any communist-run nation, the Communist Party holds the decision-making power in both the government and the economy. Party leaders also hold the top government positions. From top to bottom, the two institutions run parallel to one another. Inevitably, such centralized political and economic control has meant control over social, intellectual, and religious life, as well.

2. Central Planning. Because government makes all economic decisions, bureaucrats in a command economy must plan and supervise the production of all factories, farms, and stores in the country. Typically, a **five-year plan** plays a key role, outlining how the government wants the economy to develop. The plan sets economic goals that dictate where to emphasize growth in industry or agriculture and what and how much each individual factory and farm must produce. It also sets prices and decides how goods and services will be distributed.

3. Collectivization. Collective ownership—state ownership—of the means of production is a fundamental pillar of communist doctrine. The merger of small private farms into large government-owned agricultural enterprises is a major step in the creation of a communist economy. The process of **collectivization** may be voluntary in theory, but in many countries, peasant farmers were forced to give up their land. Millions died resisting collectivization in the Soviet Union.

4. State Ownership. Industrial enterprises, transportation, and other segments of the economy are state-owned. This aspect of the system varies greatly from country to country. In China, for example, provincial and municipal governments, not a central government ministry, own enterprises such as housing, banks, hospitals, and stores.

The Soviet Union

Marx believed that the revolution would come first in industrialized countries with large working-class populations—in particular, France, Germany, Great Britain, and then the United States. Ironically, the revolution occurred first in Russia, then an undeveloped, mainly agricultural nation, in 1917. V.I. Lenin and his followers began immediately to build a communist state in the new Soviet Union. By the time of Lenin's death in 1924, the Soviet Union had become a one-party state in control of the country's social, political, and economic institutions. Lenin's successor, Josef Stalin, tightened that control and built a totalitarian dictatorship.

The Soviet Union Under Stalin Stalin introduced centralized planning. The First Five-Year Plan (1928–1933) demanded collectivization of agriculture and a heightened production of chemicals, petroleum, and steel. Later five-year plans also emphasized heavy industry, and the Soviet Union achieved rapid, if uneven, industrialization. Unfortunately, those advances came at great cost in the form of scarce consumer goods, housing, and urban services.

The Soviet Union did provide its citizens with free education, medical care, and even summer youth camps. It was far from a classless society, however. An elite class owed its privileged status to the Communist Party. In addition, many free government services were either unavailable or of poor quality.

Transition to a Free Market By the late 1980s, under Mikhail Gorbachev's policies of *glasnost* (openness) and *perestroika* (restructuring), the Soviet Union began to dismantle the political and economic structures of communism. In 1991, the Soviet



INTRODUCE THE ACTIVITY

Tell students that they will now consider what living under communism might be like and how it might compare to daily life under capitalism. Divide the class into pairs and distribute the Chapter 23 Section 2 Core Worksheet (Unit 6 All-in-One, p. 78). Tell students that they will role play a specific individual with a partner to develop ideas of what life might be like under each economic system. Then they will write a dialogue about daily life under communism or capitalism. Explain that partners must play the same role, but will select to write about capitalism or communism.

Name _____ Class _____ Date _____

CHAPTER
23
SECTION 2

CORE WORKSHEET
Socialism and Communism

3

Comparing Daily Lives Under Capitalism and Communism

Work with a partner to role play life under communism and capitalism. Choose one role from the list below to be played by both partners. Then decide which partner will play that role under a communist system and which will play the role under a capitalist system.

Roles:

- Farmer
- Writer
- Government official
- Business person
- Restaurant server
- Foreign investor
- Doctor

In the chart below, create a list of similarities and differences in your daily lives. Then use your lists to write a dialogue with your partner about what your lives are like under the economic system in which you live. In your dialogue, try to address at least some of the following:

- Location of your job (country, urban, rural, etc.)
- Government influence on your job
- Your job's relationship to other jobs
- Your goals as an individual in business
- How your economic system affects your social and political freedom
- How your economic system affects your economic freedom

Your Role:	
Similarities in Your Daily Lives	Differences in Your Daily Lives

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L2 Differentiate For these students, distribute the adapted Core Worksheet (Unit 6 All-in-One, p. 79). If students have trouble with writing the dialogue, have them create a list of key points that they can use to tell their stories to partners. They may also tell their story in illustrated panels, if time allows.

Background

INFLUENCE OF KARL MARX Most Americans view communism, and its father, Karl Marx, as colossal failures. With its troubles and eventual widespread collapse, communism as implemented in the 20th century was, indeed, largely a disaster. However, Karl Marx himself (whose conception of communism bears little resemblance to the way it was practiced) is arguably one of the most influential thinkers of all time. At its apex, the number of people who considered themselves followers of Marx approached 1.5 billion. This is a greater number of followers and a greater percentage of the world's population than any other ideology has had in the history of the world.

Answers

Checkpoint centralized economic control by the Communist Party, central planning, collectivization, and state ownership

FOLLOW UP

When students have completed their dialogues, group three sets of partners in different roles to act out their dialogues. Then re-form as a class and draw a graphic organizer on the board in which students list features of life under each system. Next, have students write a journal entry about their overall impression of life under communism compared to capitalism. Have them state which system they would prefer to live under as themselves today. What would they like and dislike about it? Remind students to support their choice with logical reasoning.

EXTEND THE LESSON

L3 Differentiate Have students do research to create a timeline of the history of socialism or communism as it developed in one of the nations mentioned in this section. Timelines should begin with the revolution that brought about the institution of a Communist regime or the birth of a socialist or Communist party and end with the present day. Alternatively, you may wish to have students work in groups and create a large classroom timeline of the history of communism to display on the walls around the room.

L2 ELL Differentiate Provide students with a blank world map and a world atlas or current country map to share. Have students skim textbook Section 2 to find the names of the five remaining communist countries. (*China, Cuba, Vietnam, Laos, North Korea*) Have them identify these countries in an atlas or on a world map. Then they should locate these countries on the blank map and label them. Ask students to create a color key for “Communist States” and “Capitalist States” and color the map according to the key.

L4 Differentiate Have students do research to create an in-depth report comparing and contrasting economic facts about the United States with one socialist country, such as Sweden, and one Communist country, such as China or North Korea. Facts might include GDP, literacy rate, mortality, average work week, vacation time, income, and national tax rates. Encourage students to arrange some of the data in graphs or tables. Tell students to complete the assignment with a written summary that draws conclusions about the relative socio-economic status of citizens of the three nations they analyzed.



▲ Although China still identifies itself as a communist state, private enterprise and investment have achieved remarkable growth in recent years.

Union dissolved into 15 independent countries. The largest and most populous of them was Russia.

Many state-owned companies in Russia were privatized. **Privatization** is the process of returning nationalized enterprises to private ownership. Today, Russia is a country with some features of free enterprise but also extensive state intervention in the economy.

China

Mao Zedong, the founder of the People's Republic of China, was a Marxist. However, he believed the peasantry, not industrial workers, were the key to a successful communist revolution in agricultural China.

After Mao took control of the country in 1949, China developed its own version of a command economy. Despite its huge population, the country lacked skilled workers. The government improved technical and scientific educational opportunities and then assigned workers to jobs in the state sector. The government regulated the labor market, giving people little choice about where or for whom they worked.

The Great Leap Forward The five-year plan for 1958, the **Great Leap Forward**, was a drastic attempt to modernize China quickly. All elements of free enterprise were eliminated. Collective farms were brought together into larger units, communes. Communes grew into self-sufficient bodies run by Communist Party officials. These officials oversaw farms, industries, and government in a region, and they also managed social policy. Workers received the same rewards no matter how much they produced, so there were few incentives to work hard. The Great Leap Forward was a disastrous failure and was followed by a severe famine.

Deng Xiaoping's Reforms A new leader, Deng Xiaoping, came to power in 1977 and made great changes in the economy. Deng's program of the “Four Modernizations” was aimed at improving agriculture, industry, science and technology, and defense. He began to move China from a command economy to a market economy and opened the country to foreign investment.

Today, China's economic system is a maze of different levels of governmental bodies and economic units. Although the Communist Party remains in power and directs economic growth, the state-owned sector has shrunk. The government encourages private enterprise and investment and China has enjoyed many years of strong economic growth.

Other Communist Nations

Very few communist economies exist today. Most communist nations, like China, have incorporated elements of free enterprise into their economic systems.

Cuba, led by Fidel Castro from 1959 to 2008, developed a communist economy heavily dependent on Soviet economic aid during the Cold War. As a result, the fall of the Soviet Union caused an economic crisis in Cuba. Despite modest reforms, most Cubans still live and work within the state-controlled economy.

In Southeast Asia, Vietnam and Laos are also ruled by communist parties and have centrally planned economies. However, since the late 1980s, both nations have instituted

Teacher-to-Teacher Network

ALTERNATIVE LESSON PLAN Some of your classes may already have a basic knowledge of capitalism, socialism, and communism. Help these students increase their understanding by having them compare the three economic systems. Divide students into three groups and assign each group one of the economic systems. Ask each group to create a poster-sized table describing their assigned system in terms of such factors as government control, price systems, and distribution of goods and services. Display the tables and lead a class discussion about the differences between the three systems.

To see this lesson plan, go to



free-market reforms to open their domestic markets and promote growth and investment. Communist North Korea has achieved little growth. Its economy, army, and all civil institutions are under the total control of dictator Kim Jong-Il, and severe food shortages plague the country.

Evaluating Command Economies

Both free market and command economies have their strengths and their weaknesses. For the supporters of capitalism, it is easy to see the weaknesses in the theory and practice of socialism and communism. To the supporters of those two systems, capitalism seems filled with faults. Critics argue that the many layers of bureaucracy in socialist countries complicate decision making and have a depressing effect on individual initiative. As a result, command economies are slow to take advantage of new technologies. In addition, many say, the smooth running of an economy is too complex to be directed by central planners. Too many unpredictable events are involved, and too many clashing interests are at stake. For all its faults, they argue, the invisible hand of the free-market economy works more efficiently than the ever-present hand of central planning.

Command economies are also criticized because they deprive people of the freedom to decide for themselves how to use their income. Since workers get to keep only a part of their earnings after taxes, they have little incentive to work harder and earn more, and no incentives to innovate or create new products. Why work hard when your basic needs will be taken care of anyway? In response, socialists and communists say that it is fairer to supply everyone with such basic needs as medical care, housing, and education. They point to the inequalities of wealth and power that exist under capitalism. In their view, socialism makes political democracy work more smoothly by meshing it with economic democracy. Defenders of socialism and communism also argue that these systems give workers and ordinary citizens more control over their daily lives. Under capitalism, they say, a company's management can abruptly decide to close an unprofitable factory, even though such a decision can put thousands out of work and disrupt an entire community. This could not happen in a socialist or communist state, the argument goes. Workers and community leaders on the company's board would help decide what is best for the entire workforce and community—not just for the company's investors and shareholders.

Checkpoint How successful have communist economies been?

Assess and Remediate

- L3 Collect the Core Worksheet and assess the students' work, using the Rubric for Assessing a Writing Assignment (Unit 6 All-in-One, p. 102).
- L3 Assign the Section 1 Assessment questions.
- L3 Section Quiz A (Unit 6 All-in-One, p. 80)
- L2 Section Quiz B (Unit 6 All-in-One, p. 81)

Have students complete the review activities in the digital lesson presentation and continue their work in the Essential Questions Journal.

REMEDIATION

If Your Students Have Trouble With	Strategies For Remediation
The role of government under socialism and communism (Questions 1, 3, 4, 5, 6)	Draw a Venn diagram on the board. Have students offer details from the text, their notes, and their dialogues to compare and contrast government's role under the two systems.
The theories of Karl Marx (Question 2)	Have students review the four main Marxist concepts and write or give an oral summary in their own words of each concept.

SECTION 2 ASSESSMENT

Essential Questions Journal To continue to build a response to the chapter Essential Question, go to your Essential Questions Journal.

- 1. Guiding Question Use your completed chart to answer this question: What is the role of government under socialism and communism?
- Key Terms and Comprehension
- 2. How did Karl Marx's theories lead to socialism and communism?
- 3. What role does the government play in a command economy?
- 4. In your own words, describe how communism is intended to work.
- Critical Thinking
- 5. Make Comparisons How might a capitalist, socialist, and communist government each interact with small businesses?
- 6. Make Decisions Do you think the government should have the responsibility of ensuring that every citizen has a job? Why or why not?

Quick Write Expository Writing: Research for Examples and Details When writing a compare-and-contrast essay, you should include details that support the comparisons and contrasts you discuss. Use your textbook, the library, and reliable Internet sources to add details and examples to the notes you have made in your Venn diagram. Review the notes to delete details that are unimportant or do not relate to both systems.

Assessment Answers

- 1. under socialism: to ensure that all citizens are decently housed and fed and have medical care and to plan the growth of many parts of the economy; under communism: to manage all means of production and distribution of goods and services, to make all economic decisions, and to ensure the health and welfare of all citizens
- 2. Marx predicted that the workers would overthrow the capitalist bourgeoisie and take over the government, ensuring economic equality for all. This led leaders and thinkers

- to try to reform or revolutionize the government to redistribute wealth and provide more services to the workers.
- 3. One ruling party plans all aspects of the economy, oversees collectivization of agriculture, and runs major industries.
- 4. Communism is supposed to be a fair, open system under which all people are supplied with the goods and services they need to live well, including housing, jobs, healthcare, and retirement pensions. It is supposed to ensure that wealth and power is shared equally among all citizens.

Answers

Checkpoint Very few communist economies exist today. Most communist nations have incorporated elements of free enterprise into their economic systems.

- 5. capitalist: some oversight to maintain fairness in the marketplace and to ensure fair and safe treatment of workers; socialist: run some major industries and ensure workers' health and fair wages; communist: run all major industries and ensure that all workers are employed and paid fairly
- 6. Accept all logical responses.
- QUICK WRITE A strong assignment will include details related to the two economic systems and go beyond the information in the Venn diagram.

LESSON GOAL

- Students will create a pro-con chart to examine the effects of globalization.

Teach

INTRODUCE THE TOPIC

Explain that many people feel that the United States must be competitive in the global economy. Others think globalization hurts Americans. Ask volunteers to summarize the arguments in the feature.

COMPLETE A PRO-CON CHART

Ask: **How can free trade help Americans? How can it hurt them?** Have students answer these questions by completing a pro-con chart as a class. Encourage students to use information from the quotations on this page and their prior knowledge of the effects of free trade or global competition, such as factory closings or new job creation. (*sample responses: pro—stronger U.S. economy leading to more American jobs, more access to foreign goods at lower prices; higher standard of living in developing nations can increase security; con—jobs outsourced to countries with lower wages; more families have to work; loss of economic stability*)

DRAW A CONCLUSION

Ask students to use the pro-con chart to draw a written conclusion about whether free trade is good or harmful overall.

Assess and Remediate

Have students decide which quotation they think made the strongest argument and explain why.

Answers

- Answers will vary.
- (a) It says that free trade is causing Americans to lose high-quality jobs to other nations. (b) He believes that free trade will make the U.S. economy stronger and Americans more prosperous. (c) Students' answers should demonstrate an understanding of the issue and should clearly illustrate their point of view.

ISSUES OF OUR TIME

Globalization and Free Trade

▶▶ Track the Issue

Until the 1940s, the United States favored protectionist policies over free trade.

1789
Congress passes the first Tariff Act, providing the new Federal Government with its main source of revenue.

1832
South Carolina, a rural State, threatens the unity of the country over federal tariffs protecting northern manufacturers.

1930
Smoot-Hawley Tariff Act raises tariffs on imports to historically high levels.

1948
The General Agreement on Tariffs and Trade (GATT) is signed, opening a new era of lower tariffs.

1994
The North American Free Trade Agreement (NAFTA) takes effect, removing trade barriers among the United States, Canada, and Mexico by 2009.

1995
The World Trade Organization is established to expand global trade and resolve disputes.

▶▶ Perspectives

The growth of free trade has brought both benefits and challenges to Americans. While trade has expanded in some areas and the United States remains the world's largest exporter, there have also been painful job losses. What economic and social issues do government leaders need to consider in drafting free trade agreements?

Today, the global economy is enriching corporate profiteers, wealthy families and dictators, but it isn't working for working families. In the United States, we're losing high-paying, full-benefit manufacturing jobs and more and more family members are having to join the workforce to maintain living standards. Our trade deficit is eating away at economic stability and our basic industries are being hammered by... unfair trade practices. Around the world... inequality is rising, both among and within nations.
—AFL-CIO, Campaign for Global Fairness

With our strong institutions, deep capital markets, flexible labor markets, technological leadership, and penchant [like] for entrepreneurship and innovation, no country is better placed than the United States to benefit from increased participation in the global economy. If we resist protectionism and isolationism while working to increase the skills and adaptability of our labor force, the forces of globalization and trade will continue to make our economy stronger and our citizens more prosperous.
—Federal Reserve Chairman Ben S. Bernanke

▶▶ Connect to Your World

- Understand** (a) Identify five items you use each day. Where were these goods made? (b) How does trade affect your community in terms of jobs and the goods people buy?
- Compare and Contrast** (a) What does the AFL-CIO say are the negative effects of free trade? (b) Why does Bernanke think that globalization and free trade are good for the U.S. economy? (c) With whom do you agree? Why?

GOVERNMENT ONLINE
In the News
To find out about how free trade affects you, visit
PearsonSuccessNet.com

President Bill Clinton promoted farm exports through NAFTA. ▶

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Background

SECURITY AND PROSPERITY PARTNERSHIP OF NORTH AMERICA In 2005, leaders of Mexico, Canada, and United States launched the Security and Prosperity Partnership of North America (SPP). The SPP is an initiative to increase security and prosperity among the three nations through greater cooperation and information sharing. Its working groups discuss shared issues such as terrorism, smuggling, and trade. The SPP is not a signed agreement or treaty, and therefore contains no legally binding obligations. However, this also means that the organization operates outside of congressional oversight. Critics fear that the SPP's ultimate goal is political and economic integration, creating a North American Union (NAU) with blurred borders and a shared currency. Official sources call such fears conspiracy theory. The fact that the NAU myth persists may reflect the public's apprehension about globalization.

SECTION 3

The U.S. in a Global Economy



Guiding Question

How does the Federal Government support economic growth at home and abroad? Use an outline to take notes on the ways in which the government takes part in both the domestic and global economies.

I. The Domestic Economy

A. Supports free enterprise

1. _____
2. _____

B. _____

Political Dictionary

- globalization
- protectionism
- tariff
- import quota
- trade embargo
- NAFTA
- World Trade Organization (WTO)

Objectives

1. Describe the role of government in the domestic economy.
2. Understand the reasons why nations participate in trade.
3. Describe the role of the Federal Government in the global economy.
4. Explain the causes of globalization and its effects on the American economy.

Image Above: Traders signal an offer on an exchange floor.

Since 1789, the government of the United States has become increasingly involved in protecting, managing, and regulating economic life. With the rise of worldwide markets, free trade agreements, multinational corporations, and the use of off-shore labor—known as outsourcing—the Federal Government's participation in the economy is more crucial than ever before. Today, it has a great deal to say about how the economy operates at home and abroad. It also works to protect the economic interests of its citizens.

The Domestic Economy

For the first 120 years or so of its existence, the Federal Government played only a very limited role in the economy and in the economic well-being of the American people. However, by the early twentieth century, due to repeated economic “panics” and recessions, culminating in the Great Depression of the 1930s, the amount of governmental oversight began to change.

A vital free enterprise system fosters competition and entrepreneurship. The Federal Government tries to support this system by attempting to ensure fairness in the market place, and, with it, the health and well-being of both consumers and workers.

Recall, there are a number of independent agencies within the executive branch of the government. Many of them have an important role in the regulation of economic activities within the United States. Among the most important of them are the Federal Reserve System, the Securities and Exchange Commission (SEC), and such organizations as the Occupational Safety & Health Administration (OSHA) in the Department of Labor.

The Federal Reserve System Known as “the Fed,” the Federal Reserve System is one of the most powerful tools the Federal Government uses to regulate the nation's economy. The Fed was established by Congress in 1913 to become the central banking system for the United States. It consists of a Board of Governors appointed by the President (one of whom is appointed to act as the chairperson), 12 regional banks, and many other member banks. The main purpose of the Fed is to use the tools of monetary policy to promote price stability, full employment, economic growth, and other national economic goals.

GUIDING QUESTION

How does the Federal Government support economic growth at home and abroad?

I. The Domestic Economy

A. Supports free enterprise

B. Federal Reserve System

1. uses monetary policy to promote price stability, full employment, and economic growth
 2. adjusts federal funds rate to expand or contract the economy
- ##### C. Security and Exchange Commission
1. oversees the stock markets
 2. prevents insider trading, fraudulent accounting, and false information to investors

D. Department of Labor

1. protects rights of workers and oversees workplace fairness and safety
2. Occupational Safety and Health Administration oversees workplace safety
3. Employment Standards Administration promotes fairness in contracts, benefits, and wages
4. Bureau of Labor Statistics tracks employment statistics used to evaluate economy

II. The Global Economy

A. Protects American producers and consumers

1. tariff increases price of imported good to protect domestic industry
2. quota limits amount of commodity that can be imported
3. embargo bans trade with a nation as diplomatic pressure

B. Supports trade

1. North American Free Trade Agreement eliminated trade barriers among U.S., Mexico, and Canada
2. trade agreements with countries of Latin America and Asia

III. International Organizations

A. World Trade Organization works to increase trade

B. World Bank makes loans to poor countries to build infrastructure

C. International Monetary Fund helps countries whose financial systems are in trouble

D. Group of 8 discuss world affairs and crises

SKILLS DEVELOPMENT

ANALYZE GRAPHIC DATA

To practice analyzing graphic data in this section, use the Chapter 23 Skills Worksheet (Unit 6 All-in-One, p. 88). You may want to teach the skill before discussing issues of global trade. For L2 and L1 students, assign the adapted Skill Activity (Unit 6 All-in-One, p. 90).

Focus on the Basics

FACTS: • Through various agencies, the Federal Government regulates the economy to ensure fairness, economic stability, and growth. • The United States is the world's largest importer and exporter. • The main U.S. trade partners are Canada, China, Mexico, Japan, and Germany. • Tariffs, import quotas, and embargoes create trade barriers, often to protect domestic industry. • The United States, Canada, and Mexico formed NAFTA to eliminate trade barriers among themselves.

CONCEPTS: role of government in economic policy, globalization

ENDURING UNDERSTANDINGS: • Advances in communication and transportation technologies have enabled economic interdependence. • Globalization has been good for the U.S. economy in some areas, but has cost American jobs.

Get Started

LESSON GOALS

Students will . . .

- list ways in which government regulation of the economy affects their own lives.
- complete a concept web about the role of the Federal Government in the economy at home and abroad.
- summarize economic news reports to present to the class in a mock television program.

BEFORE CLASS

Assign the section, the graphic organizer in the text, and the Reading Comprehension Worksheet (Unit 6 All-in-One, p. 82) before class.

Tell students to look through print or online sources for brief news items about the U.S. government and some aspect of the domestic or global economy and bring them to class for this lesson. Each student should bring in at least two items.

L2 Differentiate Reading Comprehension Worksheet (Unit 6 All-in-One, p. 84)

BELLRINGER

Write on the board: **In your notebook, describe three ways in which you participate in the economy and three ways in which the U.S. government affects that participation.**

L2 Differentiate Have students list only the three ways in which they take part in the U.S. economy or the three government effects.

Tell students to go to the Audio Tour to listen to a guided audio tour of the Federal Reserve System.

The Federal Reserve System

Twelve regional banks make up the Federal Reserve System, known as the Fed. The banks' directors and an appointed Board of Governors make important decisions that affect the national and global economy. **Why does including the regional directors improve the Fed's decisions?**



The Fed's Responsibility: Set interest rates to encourage steady economic growth

If the Fed sets interest rates too High

- businesses will not borrow and invest
- the economy slows
- people lose jobs

If the Fed sets interest rates too Low

- too much money is borrowed
- businesses make risky investments
- prices rise quickly

Checkpoint What is the Federal Reserve System?

Mainly, this means adjusting the federal funds rate—an interest rate at which banks lend money to other banks on a daily basis. The Fed does this to either contract or expand the amount of money in the economy in response to changes in inflation or unemployment. Raising interest rates makes money more expensive to borrow, and so, in theory, contracts the economy. Lowering interest rates makes money less expensive to borrow, and so tends to expand the economy. The rate adjustments that the Fed makes can affect other lending rates, foreign exchange rates, and the levels of money and credit available in the economy, as well as employment and prices. In 2008, the Fed took quick action to avert a panic in the financial markets. You can read more about the importance of the Fed in Chapter 16.

fraudulent
adj. false, dishonest

The Securities and Exchange Commission The Securities and Exchange Commission (SEC), is a federal regulatory agency consisting of five commissioners appointed

by the President, who also selects the SEC's chairperson from among those five commissioners. Congress created the SEC in 1934 in the aftermath of the stock market crash that contributed to the Great Depression.

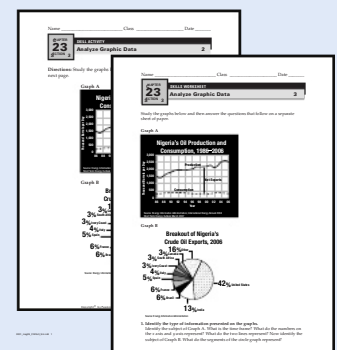
The commission's central task is to oversee the nation's stock markets and ensure that corporations do not engage in such abuses as insider trading, the practice of buying or selling stock based on company information not known to other investors. The SEC also ensures that publicly traded companies truthfully disclose their finances. It brings court actions against those who violate securities laws—for example, through insider trading, **fraudulent** accounting practices, or providing false information to investors.

The Department of Labor The Federal Government provides protections for the basic rights of workers and oversees issues of fairness and safety in the workplace. Much of this is accomplished by the Department of Labor.

Differentiated Resources

The following resources are located in the All-in-One, Unit 6, Chapter 23, Section 3:

- L3** Reading Comprehension Worksheet (p. 82)
- L2** Reading Comprehension Worksheet (p. 84)
- L3** Core Worksheet (p. 86)
- L3** Skills Worksheet (p. 88)
- L2** Skill Activity (p. 90)
- L3** Quiz A (p. 92)
- L2** Quiz B (p. 93)
- L3** Chapter Test A (p. 94) **L2** Chapter Test B (p. 97)



Answers

The Federal Reserve System The 12 bank directors based in different regions of the country participate in decision making.

Checkpoint a powerful tool used by the Federal Government to regulate the nation's economy

To meet these aims, the Department works through its various agencies. For example, since the Occupational Safety & Health Administration (OSHA) was established in 1971, its inspectors have worked with employers and employees to decrease deaths in the workplace by 60 percent. The Employment Standards Administration (ESA) monitors fairness in contracts, benefits, and wages. The Bureau of Labor Statistics plays the important role of tracking major economic statistics, such as the unemployment rate and the consumer price index. These data are used to evaluate the health of the nation's economy.

A Global Economy

There is a growing economic interdependence among nations of the world. This interdependence, known as **globalization**, has been both driven and enabled by many remarkable advancements in communication and transportation technologies. Everything from the enormous increase in computing power, the Internet, communications satellites, and even the building of larger ships has increased the flow of goods, and, as well, the flow of information that connects world markets. Globalization has also developed out of the drive for increased international trade promoted by the United States in the years since the Great Depression.

The Purpose of Trade All nations engage in trade. Trade is one of the hallmarks of civilization, and it has been for thousands of years. However, improvements in transportation and communication technologies and the pressure to find new markets have spurred the growth of worldwide markets.

The United States produces a great many different goods, but it does not produce everything this country needs. No country does because of the unequal distribution of natural resources and other factors of production, such as skilled workers, among countries. The unequal distribution of factors of production means that one nation can more effectively specialize in producing certain goods—for example, petroleum or computer chips. That nation will then

export petroleum or computer chips and use the profits to purchase, or import, goods from other nations who have an advantage in the production of, for example, food stuffs or automobiles.

Trade allows Americans to acquire the goods they want, but which this nation cannot produce as cost-effectively or efficiently as it does other goods. It is the role of the Federal Government to support trade and other economic opportunities around the world, while at the same time, protecting American producers and consumers.

American Trade Partners Today, as it has been for several decades, Canada is the United States' chief trade partner. After the North American Free Trade Agreement (NAFTA) became effective in 1994, Mexico moved up in rank to second among the United States' main trade partners. However, by the end of 2004, China had surpassed Mexico to become the United States' second leading trading partner. This remains true today.

The United States is the largest exporter of goods and services in the world. Major American exports include such goods as telecommunications, aerospace, medical, and military equipment. This country also exports soybeans, corn, fruit, automobiles, and a great many other products. Service exports are a large and quickly growing sector of world trade. The United States leads there, as well, in exporting education, information, data processing, financial services, and medical care.

The United States is also the world's number one importer of goods. About \$2 trillion in imported goods and services enter the United States each year. That is nearly 20 percent of all the world's imports, and includes such consumer goods as clothing, toys, and electronics, as well as capital goods, which include computers, electronic parts, and industrial machinery. Another import category is food and beverages, including animal feed. Automobiles and auto parts constitute a fourth import category.

However, the largest category of imported goods is industrial supplies and materials, including crude oil. The United States is the largest importer of crude oil in the world,

Checkpoint
What is the goal of globalization?

interdependence
n. dependence upon one another

hallmark
n. distinguishing feature

Teach

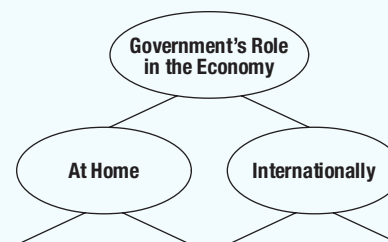
To present this topic using online resources, use the lesson presentations at **PearsonSuccessNet.com**.

GOVERNMENT'S ROLE IN THE ECONOMY

Explain that this lesson is about the ways in which the Federal Government acts to regulate or support economic life in the United States. Review the students' responses to the Bellringer activity. (*Students might note that when the Federal Reserve adjusts interest rates, students make less interest on savings. Other examples include income and other taxes they pay, OSHA and worker safety, the minimum wage, unemployment benefits, and Social Security.*)

Remind students that the U.S. has a mixed economy, in which the free market operates with government oversight. The government takes actions that affect the economy at home, but it also takes actions that influence the global economy. In turn, the global economy affects the U.S. economy.

Begin a concept web like the one below. Have students offer examples for each part of the web. (*At Home examples include: activities of the Federal Reserve, Securities and Exchange Commission, and Department of Labor—OSHA, ESA, and the Bureau of Labor Statistics. International examples include: trade barriers—tariffs, quotas, and embargoes; free-trade agreements—NAFTA and APEC; and international organizations—World Trade Organization and the World Bank.*)



Challenge students to think about the U.S. government's activities in the global sphere and how they may affect Americans. Examples include: free-trade agreements, such as NAFTA, might mean job losses or lower prices for goods imported from Canada and Mexico; tariffs and other protectionist tools mean higher prices for imported goods but protections for American jobs; conflicts, such as the war in Iraq, increase government debt, which can lead to higher taxes. Conflicts also often lead to shortages or higher prices for goods, such as oil.

Answers

Checkpoint to achieve economic interdependence among the world's nations

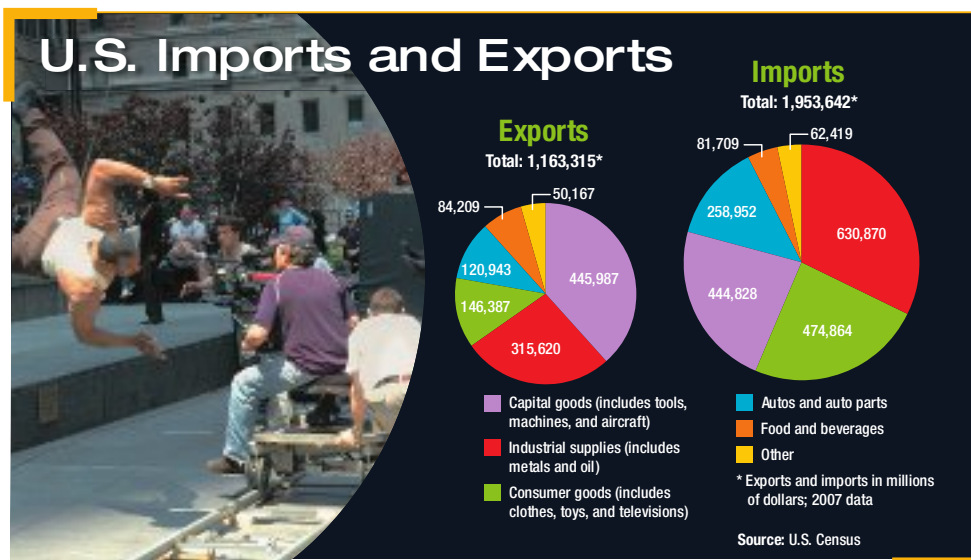
Political Cartoon Mini-Lesson

Display Transparency 23E, The Federal Reserve Acts, when you discuss the role of the Federal Reserve in regulating the economy. To make sure all students recognize the cartoon character, ask a volunteer to explain who Popeye is and what happens when he eats spinach. (*Popeye is a cartoon sailor who gains strength by eating spinach.*) Ask: **What does Popeye represent in the cartoon?** (*the economy*) **What does the can of spinach represent?** (*interest rate cuts made by the Federal Reserve*) **How are interest rate cuts supposed to affect the economy?** (*Interest rate cuts are supposed to strengthen the economy. Lower interest rates add money—in this case, spinach—to the economy by making loans less expensive. Businesses will then borrow more and expand.*) **Is the Fed's action working in this case? How do you know?** (*Not yet. Popeye's bicep is sagging, so he is not gaining strength.*)

ANALYZE ISSUES OF GLOBAL TRADE

Write the term *globalization* and its definition (worldwide economic interdependence) on the board, and display Transparency 23D, Top U.S. Trade Partners. Tell students to work with a partner to write three questions and answers about the United States position and activities in the global economy, based on information in the text or on the transparency. Example: Why do you think that Canada and Mexico are major trade partners? (*They are our nearest neighbors and also are now members of NAFTA.*) Have pairs exchange questions, and then check each other's work.

L2 Differentiate Verify that students understand the graph by asking: **What does "total trade" mean in this graph?** (*all transfers of goods or services between the United States and the rest of the world*) **Which country does the most trade with the United States?** (*Canada*) **How do you know?** (*It has the largest piece of the pie representing all U.S. trade with other nations.*)



Analyzing Charts The United States imports more goods and services than it exports, although film and television programs (left) are an exception to this pattern. **According to the charts, how does oil influence the trade balance of imports and exports?**

Checkpoint
What are the main imports of the United States?

accounting for some 12 percent of all oil imports. Most of that oil comes from the countries of Canada, Saudi Arabia, Mexico, Venezuela, and Iraq.

U.S. Trade Policies

One goal of the Federal Government has often been to protect American producers and workers by keeping prices, and therefore profits, high, while minimizing competition from imports. The government must do this through such agencies as the Department of Commerce and the International Trade Commission without **jeopardizing** relationships with its trade partners. It has employed several tools for this tricky task.

Economic Policy Tools Most national governments try to control imports to protect native industries from foreign competition. The goals of this practice, known as **protectionism**, include safeguarding of jobs,

protecting emerging or weakened industries, and enhancing national security. Governments often pursue these goals with trade barriers that hinder free trade and raise the prices consumers must pay for imported goods. These trade barriers are generally of three types: tariffs, import quotas, and trade embargoes.

A **tariff** is a tax on imported goods. A tariff increases the cost of an imported item, and makes American-made products more attractive to the domestic customer. The government regularly places high tariffs on goods that are produced by important American industries. For example, the tariff on steel is relatively high because Americans produce a great deal of it and the steel industry is considered vital to national security, so the government does not wish cheaper imports to put domestic steel mills out of business.

An **import quota** is a limit put on the amount of a commodity that can be imported into a country. While recently limited by international agreements, import quotas are

jeopardize
v. to risk, put in danger

Answers

Analyzing Charts Oil is the largest import for the U.S. and the second-largest export.

Checkpoint consumer goods, capital goods, food and beverages, automobiles and auto parts, industrial supplies and materials

Background

WORLD TRADE ORGANIZATION Most of the world's trading nations negotiated and signed agreements that form the foundation of the World Trade Organization (WTO). The members established trade rules that all agreed to follow. Members also set up a systematic process for resolving trade disputes. When a member believes a nation has broken a rule, it can take its case to the WTO. The process begins with the two sides trying to settle their problem by talking. If talking fails, the WTO appoints a panel of experts to make a ruling. If the panel concludes that a nation has violated a rule, that nation must correct its policy, or the WTO will allow the complaining nation to impose trade penalties, such as tariffs on imports from the offending nation. In 2007, the U.S. charged that China's weak copyright laws have led to unlawful copying of U.S. movies and music. A WTO panel is now considering the case.

still in place in the United States on such items as cotton, sugar, and milk. Many European nations have put a quota on American films and television shows to encourage the production of their own features and to protect national cultures.

A more significant trade barrier—and one that is more often used to apply diplomatic pressure or as a punishment rather than as an economic tool—is the trade embargo. A **trade embargo** is a ban on trade with a particular country or countries. An embargo might be placed on all goods or only specific items. It can be placed on exports or, separately, on imports. The United States has used trade embargoes largely to promote its foreign policy positions. For example, the United States has maintained a complete economic embargo on Communist Cuba since the early 1960s. Embargoes can be effective, but notice that they may also hurt the domestic economy of the nation imposing them.

NAFTA The North American Free Trade Agreement, known as **NAFTA**, became effective in 1994. NAFTA established free trade among the United States, Canada, and Mexico, and intended to eliminate, in steps, all tariffs and other barriers to trade by 2009. It created what amounts to the world's largest free trade zone.

NAFTA was approved only after a great deal of controversy and resistance, especially in the United States. Opponents of the agreement were concerned that American manufacturing operations would be moved to Mexico, where wages are lower and regulations are fewer, and lead to huge job losses. Others worried that imports without tariffs would put American businesses at a huge disadvantage. Supporters insisted that the expected increase in exports to Canada and Mexico would mean an increase in American jobs. They also argued that an improved economy would create greater prosperity and stability in Mexico, and so reduce illegal immigration from that country.

Today, nearly all **facets** of NAFTA are in place; the results seem to indicate that the agreement was good for U.S. trade and investment, but not positive for all U.S. workers. Although the long-term results of NAFTA

are hard to distinguish from other trends, it appears that NAFTA accelerated the loss of high-paying manufacturing jobs. For example, jobs in the American textile and clothing sectors, which were already in decline, decreased steeply. However, many manufacturing jobs that have left the U.S. have moved to countries other than Mexico or Canada.

On the positive side, trade—in agricultural products especially—has increased dramatically with the elimination of nearly all trade barriers. Between 1993 and 2002, United States exports to Mexico rose from \$41 billion to \$135 billion.

While NAFTA affects only trade with Canada and Mexico, it provides a model for freer trade between the United States and other countries. The United States has signed similar treaties with many other countries in Latin America and Asia involving much smaller trade flows.

International Organizations

The United States employs the tools of protectionism to support industries and workers at home. It also uses them to enlarge economic opportunities, strengthen international ties, and open new markets abroad. It often does this through membership in free trade agreements and international alliances and organizations.

Protecting the Global Economy The **World Trade Organization (WTO)** was created in 1995 to help carry out and extend the goals of a 1948 treaty, the General Agreement on Tariffs and Trade (GATT) intended to increase trade. With 151 members, the WTO provides a set of rules for international commerce, a forum for the creation of new trade agreements, and an arena in which to resolve trade issues.

The United States is also a member of, and the largest shareholder in, the World Bank. The goal of this institution is to reduce poverty and raise the standard of living around the world by making loans to poor nations to build infrastructure or reduce debt and by providing advice and training.

The International Monetary Fund (IMF) is, like the World Bank, headquartered in

facet
n. aspect, piece, side

INTRODUCE THE ACTIVITY

Tell students that in this activity they will take on the role of reporters for a fictitious economics television network. They will work in groups to plan a program that includes at least three reports on the U.S. government activities that affect the global or domestic economy. Their reports will be brief summaries of the news items they brought to class.

DISTRIBUTE THE CORE WORKSHEET

Divide the class into small groups and distribute one copy of the Chapter 23 Section 3 Core Worksheet (Unit 6 All-in-One, p. 86) to each group. Tell students that the worksheet has two parts. The first part consists of step-by-step guidelines to help them create their program. The second part is a programming schedule where they will list and briefly describe each news report they plan to give during their group's program. To begin each presentation, one student will serve as the news anchor and read the schedule. Then individual members will present their reports to the class in the style of television news reporters.

Name _____ Class _____ Date _____

CHAPTER
23
SECTION 3

CORE WORKSHEET
The U.S. in a Global Economy

3

Economics and Government in the News

You and your group members are reporters for ENN—the Economic News Network. You must organize a 10- to 15-minute program that will have three to five news reports on economics and government. One of you will be the anchor. As anchor, this member will read the Program Schedule and introduce each report. Other members will be reporters who present the stories.

To help you create your program, follow the steps below. Use the Program Schedule on the next page. As you finish each step, check it off.

Plan:

- ☐ **Choose your topics.**
As a group, review the news articles each of you brought to class. Choose three to five interesting topics from these stories for your reports.
- ☐ **Divide up roles.**
Who will be the anchor? Who will be the reporters?

Prepare:

- ☐ **Write drafts of your reports.**
Take the main points of the news articles and turn them into TV-style news reports. If time permits, find maps, charts, or pictures to make your reports more interesting.
- ☐ **Time your reports.**
Each report should be no more than three minutes long. Rehearse with your team. You may need to cut some of the reports to fit the time limit.
- ☐ **Decide the order of your reports and fill in the Program Schedule.**
What order will make your program most interesting? Give each report a title and record the titles in the proper order on the Program Schedule on the next page. Then describe each report with a sentence or a phrase. Use words that grab attention, so that viewers will want to stay tuned for the full report. Choose an overall title for your program and write it on the Program Schedule.
- ☐ **Rehearse your program.**
Rehearse with your group again. The anchor should practice reading the Program Schedule and introducing reporters and their stories before each reporter presents.
- ☐ **Make final changes to your program.**
As a group, make any final changes to your program.

Present:

- ☐ **Present your news program to the class.**

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Background

THE CASE FOR FREE TRADE Support for free trade rests on the economic principle of comparative advantage: Nations benefit from producing what they do best and trading for products that other countries do best. For example, coffee grows very well in Brazil. It makes no economic sense for the United States to restrict imports of coffee from Brazil and try to grow it ourselves. American resources can be employed more efficiently to produce, say, software and financial services. Free trade increases competition, which lowers prices for consumers. Competition also forces producers to become more efficient and improve their products to attract buyers. Competition from Japanese cars prompted U.S. automakers to produce better cars at lower prices. Statistics support the case for free trade. As tariffs fell after World War II, world economic growth rose sharply, leading to higher living standards for many nations.

L3 Differentiate As an alternate approach, organize students into groups well before class. Assign each group a broad topic or theme, such as protectionism, consumer and worker protection, international trade alliances and organizations, the domestic economy and government, U.S. trade partners, or U.S. economic policy and foreign relations. Have each group search for news items related to their topic to summarize for their news program.

L3 Differentiate If a video camera is available, you may wish to have students tape their reports.

L2 ELL Differentiate If students have difficulty with English language skills or writing, suggest that they research or create supporting visuals for their group's reports.

WRITE A FOLLOW-UP JOURNAL ENTRY

After all groups have presented their programs, have students write a journal entry describing one thing they learned from the reports and one thing about which they would like to know more. Encourage students to research that topic and write about what they learned in their journals or in the form of a short report.

tangible
adj. real, physical,
touchable

to promote a healthy global economy and to prevent crises in the international monetary and financial systems. While the World Bank lends money to developing countries to build bridges, dams, and other **tangible** improvements, the IMF helps countries whose financial or banking systems are in trouble.

Another important group to which the United States belongs is the Group of 8, or "the G8," an annual meeting of the leaders of eight wealthy and industrialized nations: the United States, Canada, France, Germany, Italy, Japan, Russia, and the United Kingdom. The group has no rigid structure and leaders meet as representatives of their governments to discuss world affairs and crises.

Other Trade Alliances The European Union (EU) is the most successful of the world's free trade organizations. It is also responsible for setting policies in other areas of common concern to its members, including social issues and security. The evolution of the EU began in 1957, when six European nations established the European Common Market to coordinate economic policies and trade. Over time, most Western European nations joined the group, and in 1986, agreed

to eliminate all tariffs on exports between member nations, creating the European Economic Community (EEC).





In 1993, the organization went even further to blur international boundaries by forming the European Union. The EU operates much like a weak federal government, with its own parliament, its own flag, and even an anthem. Citizens of most member nations can now travel as tourists or workers across national borders freely, without a passport. In 2002, twelve of the member nations gave up their individual currencies and replaced them with the euro, which is the EU's currency. The EU is now comprised of 27 nations, including many former Soviet republics.

Inspired by the success of the EU, other nations have formed mostly regional trade alliances. One of the largest is the Asian-Pacific Economic Cooperation (APEC). Its 21 members include nations on the Pacific Rim, such as the United States, Japan, Canada, Chile, and China. The Southern Common Market, or MERCOSUR, is a regional trade bloc established by Brazil, Argentina, Paraguay, and Uruguay.

Top U.S. Trade Partners

The United States trades most heavily with countries in North America, East Asia, and Europe. However, we import more from each of our six largest trade partners than we export to them, leading to trade deficits. **With which country does the United States have the largest trade deficit?**

EXPORTS to U.S. and IMPORTS from U.S.
in billions of dollars

 Canada	 China	 Mexico	 Japan
EXPORTS to U.S. 313.1	EXPORTS to U.S. 321.5	EXPORTS to U.S. 210.8	EXPORTS to U.S. 145.5
IMPORTS from U.S. 248.9	IMPORTS from U.S. 65.2	IMPORTS from U.S. 136.5	IMPORTS from U.S. 62.7
18.0%	12.4%	11.1%	6.7%
TOTAL U.S. TRADE	TOTAL U.S. TRADE	TOTAL U.S. TRADE	TOTAL U.S. TRADE

SOURCE: U.S. Census, 2007 data

Background

THE CASE AGAINST FREE TRADE The U.S. government sets standards to protect its citizens and the environment. For example, the government requires safety equipment for workers, sets a minimum wage, and requires companies to practice pollution control. These protective measures often raise the costs of production. Some other nations do not have strict standards. These nations can produce less expensively by paying low wages, allowing unsafe working conditions, and polluting the environment. Without tariffs, these exports will sell at lower prices in the U.S. than will the American-made versions, depressing U.S. industry and costing jobs. Free trade agreements have encouraged U.S. manufacturers to relocate abroad, where they can avoid the costs of meeting U.S. standards. The result is millions of American jobs lost, eroding U.S. wages, exploited foreign workers, and environmental damage.

Answers

Top U.S. Trading Partners China

Impact of Trade

For the most part, a global economy seems to be a positive development. It means that more goods are available to more consumers, and that there are more markets in which producers can sell goods. Globalization and international partnerships also help developing nations to expand their economies and raise their standards of living by enabling them to sell goods to more affluent countries.

And, clearly, competition in a global market lowers the price of goods. Goods made overseas, unblocked by tariffs, are less expensive and become more affordable for Americans. Increases in jobs and higher wages, in turn, allow consumers in developing nations to buy American goods and services, and this helps to increase or at least maintain American jobs. Additionally, new, creative approaches to outsourcing may actually create new American jobs by lowering costs so that corporations are able to use the savings to grow and develop innovative products and services. Importantly, increased economic interdependence may lead to more political cooperation and so to fewer conflicts.

However, with interdependence comes risk. A crisis in another nation on which Americans depend for an important commodity can have quick, profound, and direct economic effects. Thus, in recent years, war in Iraq and instability in Nigeria—both major oil-producing nations—contributed to higher oil and gas prices in the United States.

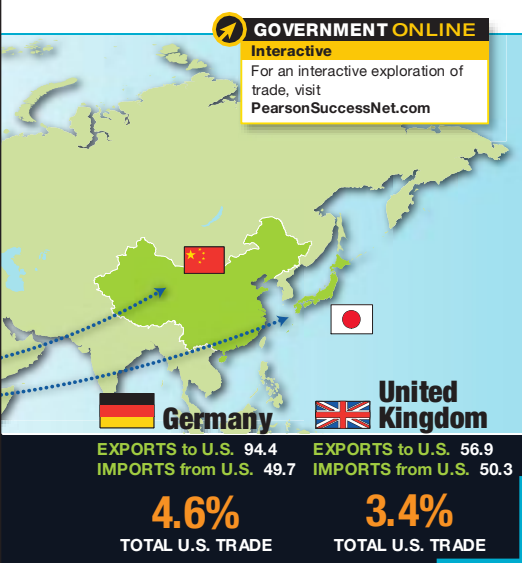
Some people worry that international trade agreements may affect a nation's sovereignty if they have to get "permission" from partner nations to make decisions about such matters as civil rights, defense, or the environment. With instantaneous communications, economic downturns or market fluctuations in one part of the world now cause instability in other markets within hours.

The United States is also moving from a manufacturing economy to a service economy, in large part because American workers cannot compete with workers in other nations who are paid much less. The loss of high-paying manufacturing jobs is painful to the individuals involved, and if these workers are not retrained to begin new jobs with comparable wages, the transition will also hurt both the local and the national economy. In addition, the growth of the service sector has created many new, high-paying jobs that did not exist a decade ago, but often in different locations from where workers live.

The United States is also adversely affected by trade deficits. For example, the United States buys much more from China than China buys from the United States, and so an enormous trade deficit has developed. China has financed the deficit by lending the United States government money and by buying American assets. This means that China, along with Japan and many oil-exporting countries, owns a portion of the American economy, with implications for the economic health and future of this nation.

Checkpoint
What is the purpose of the European Union?

instantaneous
adj. happening in an instant



Tomorrow's Marketplace

As you have seen, the trend today in the world economy is toward greater interdependence among nations—

Tell students to go to the Audio Tour to listen to a guided audio tour of Top U.S. Trade Partners.

EXTEND THE LESSON

L3 Differentiate Have students work in pairs or small groups to create an informational poster or brochure about one of the international organizations to which the United States belongs, such as the World Trade Organization or the World Bank. Have students present their work to the class.

L3 Differentiate Ask students to do research and create a circle graph showing on which nations the United States is most dependent for petroleum and the percentages Americans import from each nation. Have students write a summary about how this dependency might affect U.S. relations and policy with these nations.

L3 ELL Differentiate Tell students to draw a political cartoon about some aspect of the U.S. government's role in the economy and explain it in annotations or in a summarizing caption.

L2 ELL Differentiate Give students an outline map of the world. Have them color in the six top trade partners of the United States and label each nation.

L4 Differentiate Ask students to research and write a report on the subject of the U.S. trade imbalance. Tell students to focus on the causes and effects of large trade imbalances—for example, the trade imbalance with China—on the American economy.

L4 Differentiate Instruct students to hold a mock trial of NAFTA. The goal is to determine if the agreement is guilty or not guilty of being bad for the American economy. Students may take the roles of defense attorney, prosecuting attorney, judge, witnesses, and jury. Tell students that the jury must weigh the evidence presented by both sides and reach a verdict with which a majority agrees.

Government
online

All print resources are available on the Teacher's Resource Library CD-ROM and online at PearsonSuccessNet.com.

Debate

Free trade is a contentious issue. The economic gains do not benefit everyone equally: some individuals may rise from poverty, while others lose their jobs. Organize the class into teams to debate this issue. Ask: **Is the growth of free trade a positive or negative development?** Assign each team to debate from one of these points of view: U.S. auto workers facing plant closings; U.S. farmers receiving government subsidies; top managers of a U.S. factory that makes weapons for the military; free-market economists; entrepreneurs in Africa; workers in U.S. textile factories operating in Mexico; or owners of U.S. textile factories operating in Mexico. Have students do research to prepare their case. Ask them to conduct the debate in character.

Answers

Checkpoint The European Union is a free trade organization that sets policies in other areas of common concern to its members.

Assess and Remediate

L3 Collect the Core Worksheets and assess the students' work, using the Rubric for Assessing Individual Performance in a Group (Unit 6 All-in-One, p. 103).

L3 Assign the Section 3 Assessment questions.

L3 Section Quiz A (Unit 6 All-in-One, p. 92)

L2 Section Quiz B (Unit 6 All-in-One, p. 93)

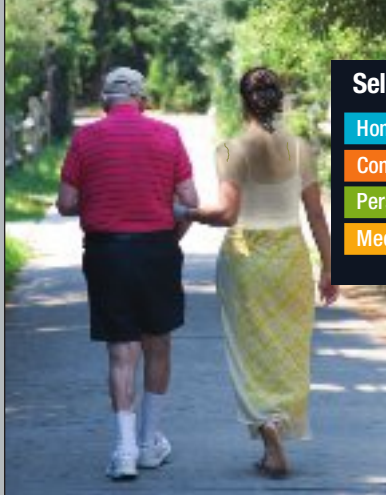
Have students complete the review activities in the digital lesson presentation and continue their work in the **Essential Questions Journal**.

REMEDIATION

If Your Students Have Trouble With	Strategies For Remediation
The role of the U.S. government in the domestic and global economy (Questions 1, 3, 5)	Draw a two-column chart on the board to list the activities of the U.S. government in the economy "At Home" and "Globally." Have students offer details from their reading and class work to complete the chart.
The structure and function of the Federal Reserve (Question 2)	Draw a pyramid on the board to show the structure of the Fed, with the Chairman of the Board of Governors at the top. Then ask students to help you list the main ways in which the Fed regulates the U.S. economy.
The goals and effects of NAFTA (Question 4)	Have students draw a simple cause-and-effect diagram. Ask them to complete the chart by listing the goals of NAFTA as causes and its effects.

Answers

Analyzing Charts These jobs require either college degrees or training beyond high school to meet the qualifications.



Selected Fast-Growing Occupations Projected increase 2006–2016

Home health aide	+384,000	+48.7%
Computer software engineer	+226,000	+44.6%
Personal financial advisor	+72,000	+41.0%
Medical assistant	+149,000	+35.4%

Source: The Bureau of Labor Statistics

Analyzing Charts The Bureau of Labor Statistics estimates that these occupational fields will see high growth over this ten-year period. How can education help people prepare to fill these jobs?

increased globalization. Along with the United States, most nations are joining multiple trade alliances, such as NAFTA and the EU, to open new markets and promote free trade. Developing nations are working to diversify their economies and open their markets. The United States continues to build partnerships by establishing new trade agreements with nations such as Peru, South Korea, Singapore, and Colombia and working with China to lower the U.S. trade deficit with that nation.

The good news for Americans is that the huge increase in the demand for services worldwide means that the United States will probably continue to see an increase in service exports and retain its position as the global leader in that area. Unfortunately,

the increase in free trade and outsourcing to emerging nations means further loss of manufacturing jobs. Although economic analysts have mixed views about the overall cost in American jobs due to outsourcing, thousands or even millions of jobs could move overseas in the coming years. Federal programs such as Trade Adjustment Assistance, which retrain workers who are laid off due to outsourcing or foreign competition, will help American workers deal with this challenge.

As the economy shifts toward services, the United States will need to rely on intellectual property as much as on exported goods. Among other important challenges and issues the United States government must face in the future are the protection of American copyrights and patents against piracy and the need to foster stability in oil-producing nations and regions.

SECTION 3 ASSESSMENT

Essential Questions Journal

To continue to build a response to the chapter Essential Question, go to your Essential Questions Journal.

- 1. Guiding Question** Use your completed outline to answer this question: How does the Federal Government support economic growth at home and abroad?

Key Terms and Comprehension

- 2.** What is the basic structure and role of the Federal Reserve System?
- 3.** Briefly identify and define the three main **protectionist** tools available to a national government.

Critical Thinking

- 4. Summarize (a)** What are the goals of **NAFTA**? **(b)** How has **NAFTA** affected different people in different ways?
- 5. Draw Inferences** How might the U.S. benefit from participating in the World Bank, the G8, and the **WTO**?

Quick Write

Expository Writing: Create an Outline To help you structure a compare-and-contrast essay on two different economic systems, create an outline in which you identify each area of comparison and contrast in a single phrase. When you are ready to write your essay, you can use the outline as a guide. Or, you may create a flowchart to help you organize and order your ideas.

Assessment Answers

1. Through various departments and agencies, the U.S. government regulates the economy. For example, the Federal Reserve uses monetary policy to promote price stability, full employment, and economic growth. The Securities and Exchange Commission oversees stock markets. The Department of Labor ensures workplace fairness and safety. The Federal Government uses tariffs and quotas to protect domestic industry. It also works through free trade agreements and membership in several international organizations, such as the World Bank, to expand global trade to strengthen the U.S. economy.

2. The Federal Reserve is run by a board of governors appointed by the President, one of whom is the chairperson. It consists of 12 regional banks and many other member banks. Its main role is to promote price stability, full employment, economic growth, and other national economic goals.

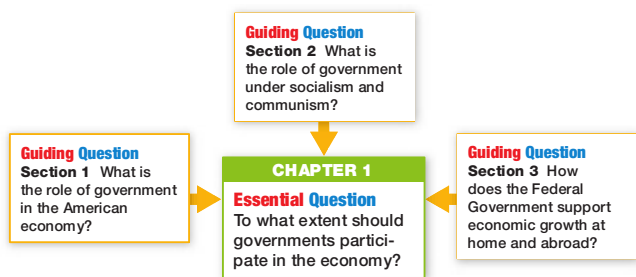
3. tariff: a tax on imported goods; **import quota:** a limit on the amount of a commodity that may be imported; **trade embargo:** a ban on trade with one or more countries

4. (a) to create a free-trade zone in North

America **(b)** It was good for trade and investment, but not positive for many American workers, especially in manufacturing, although trade in agricultural products increased.

5. The U.S. can benefit by having a say in important international activities and agreements regulating or increasing global trade, which will keep its economy strong.

QUICK WRITE Outlines should be in correct outline form and cover the comparisons and contrasts between the two economic systems appropriately and logically.



Major Economic Institutions		
U.S. Government	International Groups	Trade Agreements
<ul style="list-style-type: none"> Federal Reserve Securities and Exchange Commission Department of Labor 	<ul style="list-style-type: none"> World Bank International Monetary Fund G8 European Union 	<ul style="list-style-type: none"> GATT and World Trade Organization North American Free Trade Agreement

Political Dictionary

capitalism p. 678
factors of production p. 678
capital p. 678
entrepreneur p. 679
free enterprise system p. 679
free market p. 679
laws of supply and demand p. 681
monopoly p. 681
laissez-faire theory p. 682
The Communist Manifesto p. 685
socialism p. 686
communism p. 686
welfare state p. 687
command economy p. 687
five-year plan p. 689
collectivization p. 689
privatization p. 690
Great Leap Forward p. 690
globalization p. 695
protectionism p. 696
tariff p. 696
import quota p. 696
trade embargo p. 697
NAFTA p. 697
World Trade Organization (WTO) p. 697

Have students download the digital resources available at Government on the Go for review and remediation.

STUDY TIPS

Consistent Notebook Organization An organized notebook is an important study tool. Suggest that students consider using one large notebook with dividers. The advantage of this approach is less time spent searching for the right notebook or discovering that students have left the notebook they need at home, at school, or in their lockers. Many find that a three-ring binder works best, because pages can easily be added or removed, and homework papers and tests can be punched for inclusion. Make sure students use the tab dividers in the notebook so they can easily find the subject they need; organizing the sections in order of their schedule is one option. Recommend that students include a separate section for listing homework assignments, so they don't have to page through each subject to find their assignments. A front pocket is handy for keeping homework assignments. Have students go through their notebooks weekly to discard old papers and make sure the pages are in the right sections.

ASSESSMENT AT A GLANCE

Tests and Quizzes

Section Assessments
Section Quizzes A and B, Unit 6 **All-in-One**
Chapter Assessment
Chapter Tests A and B, Unit 6 **All-in-One**
Document-Based Assessment
Progress Monitoring Online
ExamView Test Bank

Performance Assessment

Essential Questions Journal
Debates, pp. 687, 699
Assessment Rubrics, **All-in-One**

For More Information

To learn more about comparative economic systems, refer to these sources or assign them to students:

L1 Jarnow, Jesse. *Socialism: A Primary Source Analysis*. Rosen Publishing Group, 2004.

L2 Kowalski, Kathiann M. *Free Trade* (Open for Debate). Marshall Cavendish Children's Books, 2007.

L3 Marx, Karl, Friedrich Engels, and Gareth Stedman Jones, ed. *The Communist Manifesto*. Penguin Classics, 2002.

L4 Gregory, Paul R. *The Political Economy of Stalinism: Evidence from the Soviet Secret Archives*. Cambridge University Press, 2003.

Chapter Assessment

COMPREHENSION AND CRITICAL THINKING

SECTION 1

1. (a) land, labor, and capital (b) The factors of production are the basic resources used to make all goods and services in any economic system.
2. (a) Competition keeps prices low and quality high. (b) A market may become a monopoly, which can lead to higher prices and less innovation. (c) It can regulate the market to prevent the formation of monopolies and price fixing.
3. (a) carry out foreign relations and defend the country; protect private property, public health, safety, and morals; carry out other tasks that private companies cannot carry out profitably (b) Answers will vary; students should support their opinions with reasoned arguments and details from the text.

SECTION 2

4. (a) Under capitalism, the proletariat—workers—are oppressed by the bourgeoisie—those who own the capital. Capitalists maintain their power and privilege through the state, its government, and social institutions. (b) Both systems seek to redistribute wealth that, in capitalism, is concentrated in one group, establish economic equality, and see to it that all citizens have their basic needs met.
5. (a) Answers include: nationalization of industries, a welfare state, high tax rates, and central planning. (b) a strong Communist Party, central planning, collective agriculture, and state ownership of industry and property (c) In a Communist country, government does not just participate, it controls the economy to a much greater degree than in a socialist country.
6. (a) Possible response: Yes. Profit motivates individuals to show initiative, risks, and work hard. Under communism and, to a lesser extent socialism, people keep little of what they earn and their basic needs are met without taking initiative, so they are less motivated to do so. (b) Answers will vary but might allude to social services, taxes, and the nature of business and degrees of freedom in the marketplace under each system.

SECTION 3

7. (a) Through various departments and agencies, the U.S. government regulates

23

Chapter Assessment

GOVERNMENT ONLINE
Self-Test
To test your understanding of key terms and main ideas, visit
PearsonSuccessNet.com

Comprehension and Critical Thinking

Section 1

1. (a) What are the three **factors of production**? (b) What role do the factors of production play in the economy?
2. (a) Why is competition important in a **free market** economy? (b) What might happen in a market without competition? (c) How might government promote competition?
3. (a) According to **laissez-faire theory**, what are the three major concerns of government? (b) Do you think this amounts to too little, too much, or just about the right amount of involvement for government? Why?

Section 2

4. (a) Briefly explain Karl Marx's basic ideas about **capitalism**. (b) In what sense are **socialism** and **communism** a response to capitalism?
5. (a) What are three characteristics of socialist countries? (b) What are four characteristics of communist countries? (c) How does government participation in the economy vary in the two systems?
6. (a) Many people say that **socialism** and **communism** discourage individuals from taking initiatives. Is this criticism valid? Why or why not? (b) How does **capitalism** differ from **command economies** in the treatment of the individual?

Section 3

7. (a) Summarize the role of the Federal Government in the American economy. (b) Describe how three institutions of the Federal Government help carry out this role.

8. **Analyzing Cartoons** Study the cartoon below about a Senate candidate and tariffs on steel. (a) Why would steel workers and auto workers have different views on steel tariffs? (b) What does this indicate about the effect of tariffs on jobs? (c) Is this cartoon in favor of free trade, opposed to free trade, or neutral? Explain.



Writing About Government

9. Use your Quick Write exercises from the section assessments in this chapter to write an essay that compares and contrasts the two topics you selected. Make sure that the information is accurate and that comparisons are reasoned and relevant. End your essay with a summarizing conclusion. See pp. S3–S5 in the Skills Handbook.

Apply What You've Learned

10. **Essential Question Activity** In small groups, meet with a business owner in your community. Ask:
(a) How do you think the American system of government supports or encourages economic freedom?
(b) How does a free market help your business?
(c) In what ways do you think your life and your business would be different in a socialist or communist system?
(d) Do you think that the Federal Government should be more or less involved in the economy, workers' rights, and social welfare?

11. **Essential Question Assessment** Based on the interview you conducted, write a political statement that expresses the views of this business owner about the relationship between economic and political freedom and the role of government in the economy. Discuss your ideas with your classmates to help you answer the Essential Question: **To what extent should governments participate in the economy?**

Essential Questions Journal To respond to the chapter Essential Question, go to your **Essential Questions Journal**.

the domestic marketplace to ensure fairness, workplace safety, a minimum wage, and fair hiring practices, and regulates prices and inflation via the Federal Reserve. It also works through its membership in several international organizations, such as the World Bank, to expand global trade to increase jobs and strengthen the U.S. economy. (b) Possible response: The Federal Reserve promotes price stability, full employment, and economic growth mainly through adjusting the federal funds rate. The Security and Exchange Commission oversees the stock markets to prevent

abuses such as insider trading. The Department of Labor provides protections for the rights of workers and oversees fairness and safety in the workplace.

8. (a) The steel tariff is relatively high so that the U.S. steel industry and its workers are protected. However, a high steel tariff could lead to higher auto prices, which could hurt auto workers. (b) A tariff could have both positive and negative effects on jobs, depending on the industries involved. (c) Possible answer: The cartoon is neutral because it recognizes that free trade has both positive and negative effects.

Document-Based Assessment

CHAPTER 23

Government and the Economy

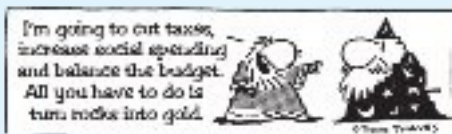
As the United States approached its entry into World War II, President Franklin Roosevelt defined “four freedoms” government should protect, as shown in Document 1. While many question how far the government should intervene in the economy, the Federal Government often acts with the intent to influence business trends, as in Document 3.

Document 1

“We look forward to a world founded upon four essential human freedoms. The first is freedom of speech and expression—everywhere in the world. The second is freedom of every person to worship God in his own way—everywhere in the world. The third is freedom from want—which, translated into world terms, means economic understandings which will secure to every nation a healthy peacetime life for its inhabitants—everywhere in the world. The fourth is freedom from fear—which, translated into world terms, means a world-wide reduction of armaments to such a point and in such a thorough fashion that no nation will be in a position to commit an act of physical aggression against any neighbor—anywhere in the world.

—President Franklin D. Roosevelt,
“The Four Freedoms” State of the Union Address,
January 6, 1941

Document 2



Document 3

In 2008, President Bush sought to boost the nation's flagging economy by sending each American tax payer a payment of several hundred dollars.

This growth package must be big enough to make a difference in an economy as large and dynamic as ours . . . This growth package must be built on broad-based tax relief that will directly affect economic growth—and not the kind of spending projects that would have little immediate impact on our economy. This growth package must be temporary and take effect right away—so we can get help to our economy when it needs it most. And this growth package must not include any tax increases. . . . We're in the midst of a challenging period, and I know Americans are concerned about our economic future. But our economy has seen challenging times before—and it is resilient. In a vibrant economy, markets rise and decline. We cannot change that fundamental dynamic. As a matter of fact, eliminating risk altogether would also eliminate the innovation and productivity that drives the creation of jobs and wealth in America.

—Presidential address, January 18, 2008

Use your knowledge of government's role in the economy and Documents 1, 2, and 3 to answer Questions 1–3.

1. In his speech, Franklin Roosevelt expressed the idea that
 - A. all nations should govern their people in the same way as does the United States.
 - B. the most important long-term goal of all nations should be rearmament.
 - C. it is the responsibility of government to ensure the welfare of all of its citizens.
 - D. the global political situation is very dangerous and no one is secure.
2. How does President Bush characterize downturns in the American economy?
3. **Pull It Together** Do you think that Bush's economic growth plan fulfills the third freedom described by Roosevelt? Why or why not?



GOVERNMENT ONLINE
Go Online
To find more primary sources
about the economy, visit
PearsonSuccessNet.com

DOCUMENT-BASED ASSESSMENT

1. C
2. He sees economic downturns as part of the rise and fall of markets in a vibrant economy, and believes that risk is necessary to achieve innovation and productivity.
3. Possible answer: I believe that Bush's plan is less far-reaching and temporary, compared to Roosevelt's idea that government has the responsibility to intervene in the economy in order to ensure citizens' welfare.

L2 Differentiate Students use all the documents on the page to support their thesis.

L3 Differentiate Students include additional information available online at **PearsonSuccessNet.com**.

L4 Differentiate Students use materials from the textbook, the online information at **PearsonSuccessNet.com**, and do additional research to support their views.



Go Online to PearsonSuccessNet.com
for a student rubric and extra documents.

WRITING ABOUT GOVERNMENT

9. Essays should compare and contrast two economic systems and end with a summarizing conclusion.

APPLY WHAT YOU'VE LEARNED

10. Responses should summarize the interviewee's answers.
11. Students' statements should include the views of the interviewee on economic freedom and the role of the government in the economy, as well as their own ideas about the connections between economic and political freedom.

ANSWERS TO ESSENTIAL QUESTION WARMUP

Before assigning these questions, distribute the Rubric for Assessing a Writing Assignment (Unit 6 All-in-One, p. 102). Use the criteria and the guidelines below to grade students' answers to the Essential Question Warmup questions. Then send students to the **Essential Questions Journal** to answer the unit Essential Question.

1. A strong answer will give a coherent and well-considered definition of needs.
2. A strong answer will demonstrate the student's understanding of various political systems and historical events. It will also explain how specific leaders or nations approached the wellbeing of the people.
3. A good answer will state a position on whether a single person or party can understand and identify the needs of a people and why it would or would not. It will explain the reasons why such governments have often been unresponsive to people's needs in the past.
4. To answer this question successfully, students must identify the aspects of a free market system that address the collective needs. Further, students may find it necessary to address the definition of *need* in context.

Essential Question

How should a government meet the needs of its people?

The hundreds of sovereign states in the world today identify the needs of their people in different ways and disagree on how or to what extent governments should attempt to meet them.

ON THE LIMITS OF GOVERNMENT:

Conservatives know that governments don't have all the answers. But if they govern with the right values, they can make a real difference.

—UK Conservative Party Manifesto, 2005

ON MEASURING THE IMPROVEMENT IN LIVES:

Prosperity Indicators, U.S.

	1950	2007
Life Expectancy at Birth (years)	68.2	78.0
Per Capita Gross Domestic Product (constant 2000 dollars)	\$11,720*	\$38,020
Population with Bachelor's Degrees, age 25 and up	6.2%	28.7%

*approximate

By most measures, Americans are healthier, better educated, and more affluent today than in the past.

ON THE RESPONSIBILITIES OF A COMMUNIST PARTY:

Without the efforts of the Chinese Communist Party . . . as the mainstay of the Chinese people, China can never achieve independence and liberation, or industrialization and the modernization of her agriculture.

—Mao Zedong, 1945

Essential Question Warmup

Throughout this unit, you studied the history and ideas behind political systems and economic systems around the world. Use what you have learned and the quotations, data, and opinions above to answer the following questions. Then go to your **Essential Questions Journal**.

1. How would you define "the needs of the people"?
2. How might other nations, and specific leaders in history, define "the needs of the people" differently?

3. Can a country led by a single party or person successfully represent a country's people?
4. How does a free market economy help meet people's needs?

Essential Questions Journal

To continue to build a response to the chapter Essential Question, go to your **Essential Questions Journal**.

Assessment Resources

Unit 6 AYP Monitoring Assessment
ExamView Test Bank CD-ROM
SuccessTracker Assessment
Online Student Self-Tests
Chapter Tests
Section Quizzes
Chapter-level Document-Based Assessment

In This Unit

Chapter 24:
Governing the States

Chapter 25:
Local Government
and Finance

Photo: Voters express their views at a town meeting in Hardwick, Vermont.

Essential Questions Journal

To begin to build a response to the chapter Essential Question, go to your Essential Questions Journal.

Unit 7 Participating in State and Local Government

Essential Question What is the right balance of local, State, and federal government?

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ESSENTIAL QUESTION PERSPECTIVES

Essential questions frame each unit and chapter of study, asking students to consider big ideas about government. The question for this unit—**What is the right balance of local, State, and federal government?**—demands that students ask further questions. What does each level of government do now? How responsive is each level of government to citizens? How do different levels of government work with or against each other? How and why has the balance of power evolved over time?

To begin this unit, assign the Unit 7 Warmup Activity on page 202 of the **Essential Questions Journal**. This will help students start to consider their position on the **Unit 7 Essential Question: What is the right balance of local, State, and federal government?**

Show the **Unit 7 American Government Essential Questions Video** to help students begin thinking about the unit Essential Question and designate a classroom bulletin board for students to post news articles related to the unit Essential Question. Use the Conversation Wall strategy (p. T27) to encourage students to post articles and comments on other students' postings.

Later, students will further explore the chapter-level essential questions:

Chapter 24: How much power should State government have?

Chapter 25: How local should government be?

Use the **Essential Questions Journal** throughout the program to help students consider these and other big ideas about government.

Government Online Resources

Government Online Teacher Center at **PearsonSuccessNet.com** includes

- Online Teacher's Edition with lesson planner and lecture notes
- Teacher's Resource Library with All-in-One Resources, Color Transparencies, Adequate Yearly Progress Monitoring, and an alternative lesson plan for each chapter
- SuccessTracker Assessment

Government Online Student Center at **PearsonSuccessNet.com** includes

- Interactive textbook with audio
- American Government Essential Questions Video
- Chapter-level WebQuests
- Guided Audio Tours and Interactivities
- Student Self-Tests

Introduce the Chapter

Essential Questions:

UNIT 7

What is the right balance of federal, State, and local government?

CHAPTER 24

How much power should State government have?

ACTIVATE PRIOR KNOWLEDGE Have students examine the photo and quotation on these pages. Ask: **What do the photo and quotation suggest about the relationship between State governments and the Federal Government?** (*that strong State governments together create a strong Federal Government*) In this chapter, students will learn about the elements of State governments. Then tell students to begin to further explore these topics by completing the Chapter 24 Essential Question Warmup activity in their **Essential Questions Journal**. Discuss their responses as a class.

BEFORE READING

L2 ELL Differentiate Chapter 24 Prereading and Vocabulary Worksheet (Unit 7 All-in-One, p. 11)

SUCCESSNET STUDENT AND TEACHER CENTER

Visit **PearsonSuccessNet.com** for downloadable resources that allow students and teachers to connect with government “on the go.”

DIGITAL LESSON PRESENTATION

The digital lesson presentation supports the print lesson with activities and summaries of key concepts.

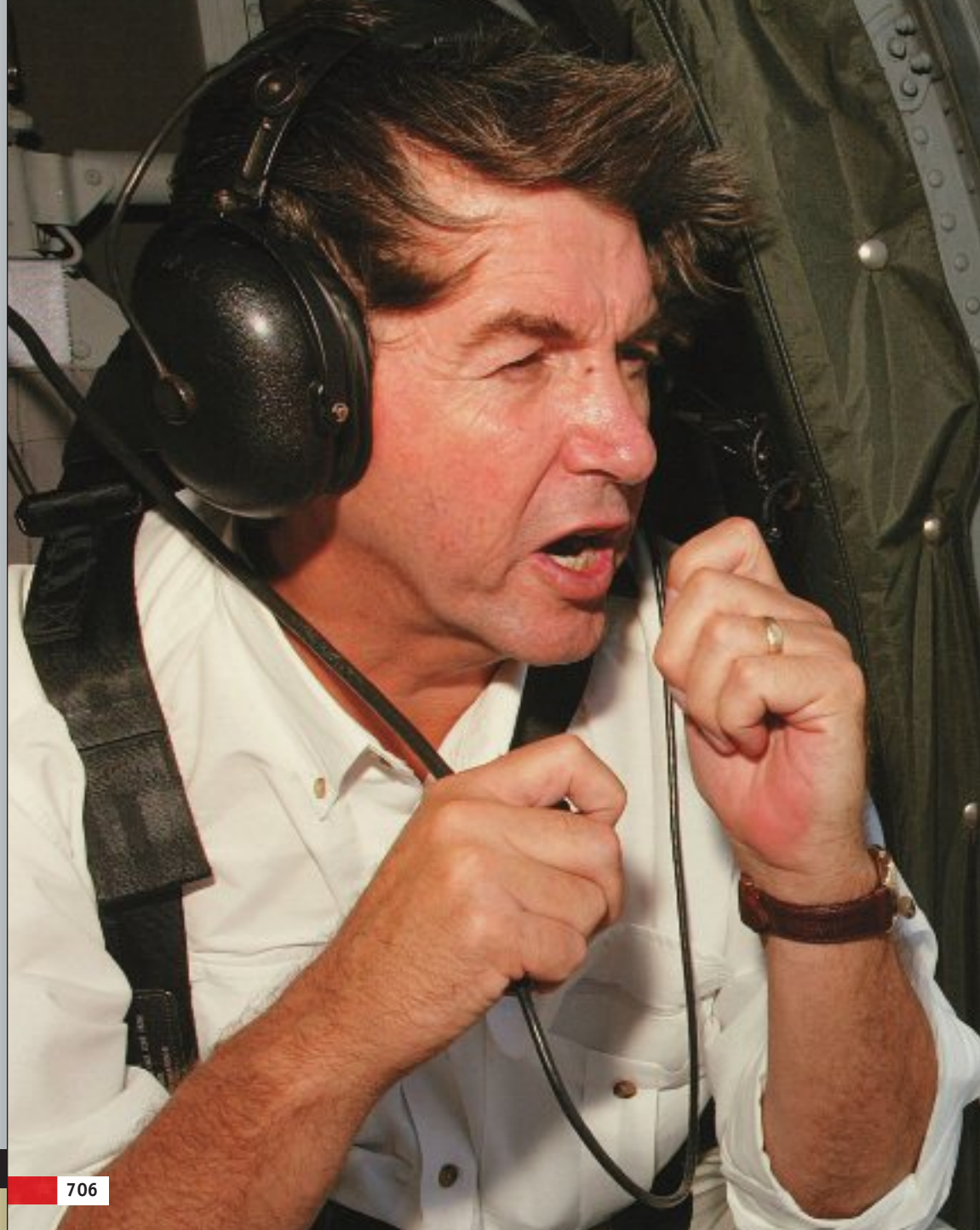
SKILLS DEVELOPMENT

PROBLEM SOLVING

You may wish to teach problem solving as a distinct skill within Section 3 of this chapter. Use the Chapter 24 Skills Worksheet (Unit 7 All-in-One, p. 37) to help students learn how to solve problems. The worksheet asks students to explore issues of public trust in State government. For L2 and L1 students, assign the adapted Skill Activity (Unit 7 All-in-One, p. 38).



The chapter WebQuest challenges students to answer the chapter Essential Question by asking them about State governments.



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Block Scheduling

BLOCK 1: Teach the Section 1, 2, and 3 lessons, omitting the Section 1 discussion of federalism and the Section 2 discussion of legislative and non-legislative powers. In Section 3, omit the mock executive meeting. Omit the Extend options for all sections.

BLOCK 2: Teach the Section 4 and 5 lessons, omitting the Extend options for Section 4. Assign the Extend option for Section 5.